Introduction

Investing in Work

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Much of this volume will consider how to improve outcomes for workers and employers by investing in strategies that either "upgrade the worker" (through training) or "upgrade the work" (increase the quality of jobs). Some chapters in particular will discuss what constitutes a "good" or "high-quality" job from the worker's perspective, highlighting elements like wages, benefits, and other work conditions (importantly, "worker voice") that distinguish desirable from undesirable work attributes. Being clear on what we mean when we say "high-quality jobs" is an important step in considering how to ensure that more workers obtain such employment.

While a number of chapters in this volume discuss specific strategies for increasing the quality of jobs, in this framing piece we consider a different question, motivated by considering it from an economic systems perspective: Why do employers offer the combination of wages, benefits, hours/income stability, and workers' "voice" that we observe? Is it the result of optimal, cost-minimizing, efficient, competitive behavior? Does it properly reflect the full cost to society of employing these workers? Or does it represent a system that (in some respects) is distorted by externalities, or affected by an imbalance of employer/worker power that gives employers more power to set terms than is socially desirable? If so, has that imbalance grown over recent decades?

To be specific, we will consider the question of how the U.S. economic system has consistently delivered the following results:

- A large segment of the population receives low wages, relatively poor benefits, and poor income stability.
- Wages for this segment of the population have been stagnant or declining over the past 25 years.

- The Survey of Consumer Finances (SCF) shows that households in this income stratum live on a household income in the low $20,000 range, including government supports.[1]
- This is a shockingly low income-level number, especially for families with a dependent child or children.

In the process of considering the ways in which job characteristics might be viewed as unsatisfactory, many researchers and policymakers have identified a host of potential issues, and correspondingly a host of potential policy remedies. Singly, many of these remedies are worthy of consideration. But together, they may suggest that a deeper underlying set of factors is at work to produce these outcomes. If so, then perhaps one could address these underlying factors, obviating the need for an array of partial solutions.

WHY DOES THIS MATTER SO MUCH?

To be sure, undesirable outcomes matter to those who work under such dissatisfying conditions and to their family dependents. Moreover, the labor market to date has delivered outcomes that are in a very real sense *unsustainable.* That is, many families with one or two workers employed in such jobs can barely survive on the wages they earn. Critically, they often survive *only* with support from the government. And by "survival," we do not mean full achievement of the American Dream. We have in mind literal survival—the ability to feed, clothe, and shelter oneself and one's dependents, so as to avoid significant illness, disability, or death. The standard for survival in these cases is pitifully low. It is in that sense that these jobs are not sustainable, because without government assistance, many such workers might not survive, period.

WHY DOES A MODERN, EFFICIENT CAPITALIST SYSTEM PRODUCE SUCH RESULTS?

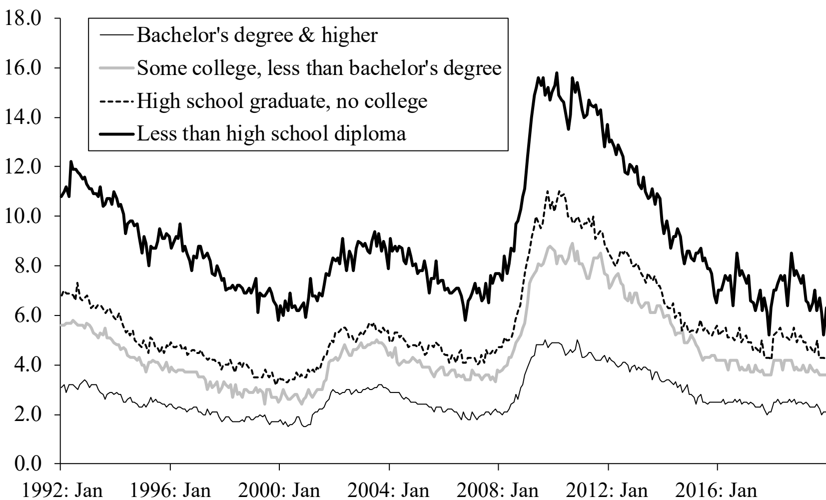
For many, modern labor markets do their job quite well. If you are among the well-educated and technologically proficient, and if

you come from the right geographical area, you stand a good chance of obtaining a job with good pay, benefits, working hours, and worker "voice." If not, wages and job stability suffer. One simple indication of the stability of work by educational attainment is presented below. Figure 1 shows that during the Great Recession, the least-educated experienced nearly four times the unemployment rate of the most-educated. In times when there's not a recession, better-educated workers average unemployment rates about one-third those of the least-educated.

The Survey of Consumer Finances provides a snapshot of family income across selected characteristics. Figure 2 displays household before-tax income (in thousands of 2013 dollars) for the lowest 20 percent of incomes, the next 20 percent, and the median income for families with heads of household without a high school diploma, or with only a high school diploma. Note that the SCF uses a very broad definition of household income.[2]

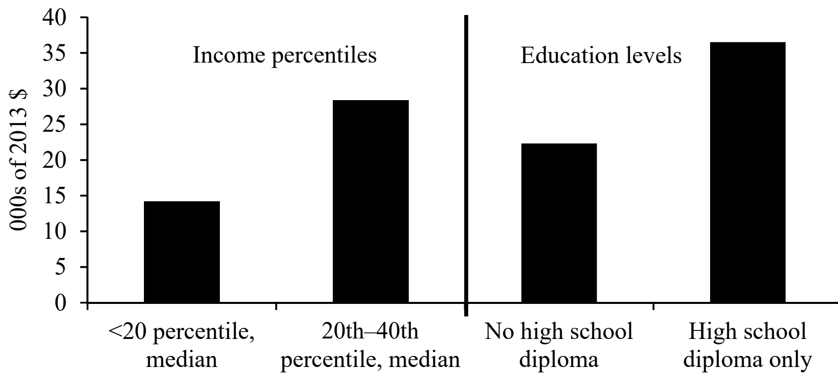
These income levels, which include government supports and cover income of all sorts from all members of the household, are staggeringly low. The fact that 20 percent of U.S. working families live on before-tax, after-transfer income of less than $15,000—which trans-

Figure 1 Unemployment Rates by Educational Attainment (25 years and older)



SOURCE: Bureau of Labor Statistics, Haver Analytics.

Figure 2 Household Income, before Taxes



SOURCE: Federal Reserve Board (2013).

lates to less than $7.50 an hour for a full-time, 40-hour-a-week job—is sobering (Federal Reserve Board 2013). By the definition above, that's a large swath of the population that is living on unsustainable wages. Nearly one in five American households used the Supplemental Nutrition Assistance Program, or SNAP (food stamps), in 2016, and most of these households have a working head of household (USDA 2018). And that doesn't address the lack of benefits or other working conditions that typically go with such low-paying jobs.

Of course, one could then argue that the solution to this problem is education and training—and, as some chapters in this volume contend, education and training would certainly help. For a given labor market structure, education and training will move some workers up the distribution into higher-wage and higher-quality jobs. However, education and training are unlikely to change the characteristics of the jobs themselves. Thus, what we want to draw attention to is the structures that determine the quality of the jobs at the low end of the distribution. The question is why *in absolute terms* do the poorest-paid, least-stable jobs look so dismal? How did this happen?

There are a host of factors that have produced these labor market and social outcomes. We focus on two high-level factors.

First, there exists an externality by which the private sector can pay unsustainably low wages without bearing the full social cost of paying

unsustainable wages. To survive, households that earn such low wages must rely on government support. This cost to society is borne by all taxpayers, so in this sense, employers are imposing an external cost on the rest of the economy by paying such low wages and yet reaping the benefits of production. When producers impose costs on the economy that they do not internalize, economists often suggest that this is an appropriate area for government to work in to rectify the externality, often by imposing a tax that forces the producer to pay the full cost of producing, including the external cost.[3]

Second, these jobs are characterized by an imbalance of power between workers and employers (in which workers have a diminished ability to share in the profits generated by their labor), perhaps similar to the imbalance that existed in labor markets in the United States in the late nineteenth and early twentieth centuries. In that period, workers organized to exert power over their employers and obtain gains that we today take for granted, in the form of higher wages, shorter work weeks, and safer working conditions, to name a few.

While we have long acknowledged the right of companies to maximize profits and shareholder value (more on that below), we have also acknowledged the tension between achieving that goal and its effect on working conditions. Thus, the resolution of this tension in the twentieth century was a set of policies that regulated employers so as to ensure that working conditions met minimum standards. The ability of employers today to offer jobs with a broad array of poor working characteristics, and the necessity of so many employees to accept such jobs, implies that the balance of power may once again have tilted significantly in favor of employers.

This second factor (a power imbalance) allows the first factor (employers not bearing the full social cost of paying unsustainable wages) to operate. While the structure of the economy has progressed, workforce policies that manage employer-worker tension over distribution may not have kept pace, likely contributing to the labor market outcomes discussed in this chapter.

To be sure, large firms with significant profit margins and leadership that is so inclined may choose to implement a sustainable wage program, and some have.[4] But a solution that relies on a coalition of the willing is probably not scalable to many employers. In particular, if low-quality job employers operate in industries with relatively low

profit margins and significant competition in their product markets, firms may feel they are unable to raise wages without losing profits, market share, or both. We will return to this implication in a moment.

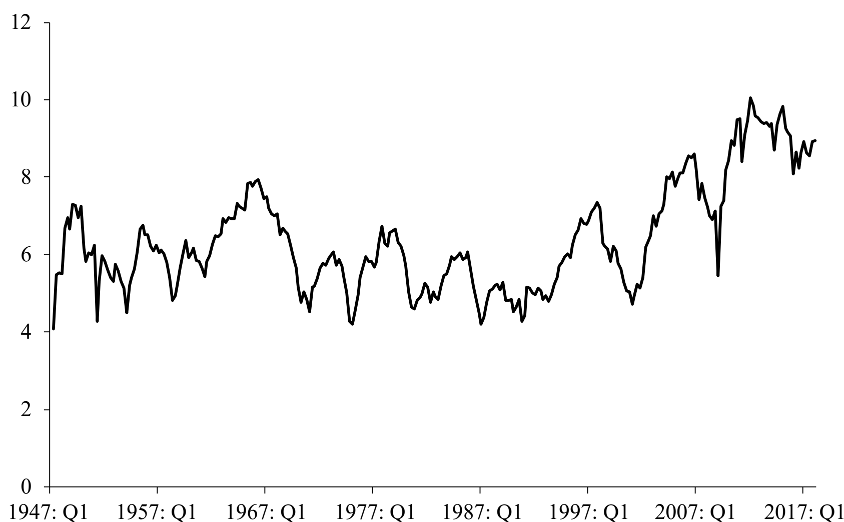
Another trend that likely contributes to the prevalence of poor-quality jobs is increased outsourcing of some functions—maintenance, cleaning, landscaping, security—to third-party contractors. Once the contract is negotiated, the incentive for the primary employer to monitor the working conditions of those workers under outside contract is much reduced, as is the ability to monitor such conditions. Even well-intentioned employers may unwittingly contribute to the rise of low-quality jobs by making a business decision that helps their bottom line, but that may worsen the work characteristics of those performing such functions for them through a third party.

An overarching consideration for employers in publicly traded firms is accountability to shareholders, which may imply a powerful focus on cost-cutting, including labor costs. This incentive no doubt operates to some extent, but recent corporate profits do not display such a strong imperative to cut costs sharply downward. Indeed, the average share of profits in the corporate sector, shown in Figure 3, is near an all-time high of late, and currently lies well above its average over the postwar period.

The link between labor costs and prices highlights another structural factor in the prevalence and persistence of low-quality jobs: in a sense, consumers are complicit in this dynamic. For commoditized manufactured goods and for many services, consumers have come to expect low prices.[5] In part, such low prices are made possible by the low wage and benefits packages provided to workers in retail, agriculture, and some jobs in health care. Of course, low prices are also made possible by significant advances in technology and productivity over the past 50 years. But given the high profit rates cited above, it is somewhat puzzling why so few of these productivity gains have redounded to workers. Consumers are of course not responsible for monitoring the cost structure for all goods and services they purchase. But if they knew that one implication of some of their low-price purchases is the low-quality jobs that make those prices possible, it might give them pause.

High profit rates also benefit shareholders through higher equity prices and dividend payouts. This is another way in which the distribution of income has worked to the advantage of owners of capital, and

Figure 3 Profit Share of GDP, 1947–Present (corporate profits after tax with inventory valuation adj. and capital consumption adj.)



SOURCE: Haver Analytics.

not to labor. Perhaps institutional investors, such as public-sector pension fund managers, would feel less comfortable earning high returns if they knew they were made possible by low-wage workers at these firms who cannot afford basic necessities, and who derive no benefit from high profits, since they have neither pensions nor meaningful savings in a retirement fund.

WHAT CAN OR SHOULD BE DONE ABOUT THIS LONG-STANDING SET OF OUTCOMES?

If it is appropriate to characterize low-quality jobs as arising in part because of an externality, the solution to this externality could mirror that of other externalities in economic systems: policymakers could develop a mechanism whereby firms bear the full cost of their actions. In this case, a solution would also take into account the difficulties of

coordinating behavior so that no one firm disproportionately bears the burden of moving toward wages that reflect the full cost to the economy of a worker who cannot survive on a very low wage.

Addressing the imbalance of power that we argue lies at the heart of these poor working conditions is much more difficult. Unions were the solution in the earlier era referenced above. They worked because they represented the interests of workers, who, collectively, gained enough power to serve as an effective counterbalance to the interests of many employers. As suggested above, collective bargaining helped employees win important gains in employment characteristics that persist today. Cultural norms within business may also have played a role. For example, the ratio of CEO pay to that of the average worker traditionally was about 20 to 1, but that ratio has grown exponentially (Mishel and Davis 2015). This may be an imperfect measure, but it demonstrates that the relative bargaining power within firms between workers and managers may be a factor in setting low wages for many workers.

Misperceptions may also harm policy prospects for low-wage workers. The work itself is often thought of as a temporary way station held by someone starting out in the labor market or a recent arrival to the country. Yet recent analysis finds that the working poor are more likely to be over 30, or a parent with children at home, than the common narrative suggests (Center for Poverty Research 2018). Sometimes low-wage work is thought of as easily automated, and so must either be maintained at low levels or eliminated. But it is hard to imagine automation for a broad swath of low-wage jobs, including child care, home health aides, and frontline retail jobs where a human presence appears to be vitally important.

In part because of unions' success in making key workplace characteristics the norm, the share of unionized labor has fallen from a high of about 25 percent of private workers in 1974 to less than 8 percent today (BLS 2018).[6] It seems unlikely that the United States will see a dramatic reversal in that trend. If that presumption is correct, we may need to design other mechanisms to afford workers in low-quality jobs a more powerful voice in negotiating for better terms of employment.

WHAT WOULD BE THE IMPLICATIONS OF HIGHER WAGES IN THIS SWATH OF OCCUPATIONS?

To the extent that any policies or private changes are effective in raising wages (and other costs of employees) for a significant fraction of workers, prices of some goods would likely rise. This conclusion assumes that profit margins are not so large that they could absorb a wage increase without passing some of the increase on in the form of higher prices. While Figure 3, from earlier, shows that average profit rates are high in the United States, for some of the industries in which low-quality jobs exist, lower profit margins may well be a concern. It could be that increases in productivity would arise from improved wages and working conditions, but that these might not completely offset the increase in wages. (Or, put differently, unit labor costs—the difference between wage increases and productivity growth—would still rise.) To the extent that prices rise for goods disproportionately consumed by lower-income people, this would be a partial offset to the benefits of higher wages.

Providing benefits such as advance scheduling notice, more reliable working hours, and health benefits may better support family health and student outcomes, and may address components of the generational nature of poverty among families with low-wage workers.[7] Poor family outcomes can also be viewed as negative externalities of insecure work, in which the social cost is paid by school funding or other social spending to mitigate effects upon children and health. Some of these proposed improvements in the work environment may be passed on in the form of higher prices. But others may be neutral or even result in greater productivity from lower turnover, better health, and a more motivated and focused worker. Getting to a new equilibrium may be more cost-effective for a business than it appears, especially if the changes are made more or less uniformly over firms. Finding an effective mechanism to address these broader issues, however, is no less complicated than finding one to address low wages.

In sum, too many workers and their families today endure precarious economic conditions because their jobs do not provide sustainable compensation and benefits, forcing them to rely on social programs to survive. Even after receiving such support, family income for these

workers is pitifully low. This phenomenon appears to us to have been worsening, but we are hopeful that it is reversible. We should of course aim for changes in policies and practice that improve working families' financial stability while maintaining an efficient and productive U.S. economy.

An important first step in achieving such progress is recognizing the ongoing tension between (on the one hand) employers' responsibility to shareholders, the competitive structure of the industries in which they operate, the combination of these two to induce significant cost-cutting pressures, and consumer expectations; and (on the other hand) the need for good-quality jobs that provide sustainable economic outcomes. This tension has been with us for more than a century, although it is manifested differently today from what it was a century ago. In an earlier time, we developed policies that resolved the tension in a way that we deemed fair to both employers and employees. In our current circumstances, that challenge remains.

BUILDING AN INVESTING FRAMEWORK

The term *investment* is used in this book in a number of different ways. In one sense, it means actual financial investment in workforce development programs—the act of expanding programs requires additional monetary resources—but this is far from the only type of investment. Workforce development programs need partners that are invested in the success of the program, which includes businesses and economic development organizations as well as community development and social support organizations. Community organizations also can help address existing labor market disparities and challenges that are not completely skill based. It is also critical that future evaluations of workforce programs include cost-benefit analyses that show benefits to workers, businesses, and society.

Investing in America's Workforce: Improving Outcomes for Workers and Employers offers research, best practices, and resources for workforce development practitioners from more than 100 contributing authors. The book aims to reframe workforce development efforts

as investments that can result in better economic outcomes for individuals, businesses, and regions. In the three volumes, we focus discussions of investments on three areas: 1) investing in workers, 2) investing in work, and 3) investing in systems for employment opportunity. Within each volume are discrete sections made up of chapters that identify specific workforce development programs and policies that provide positive returns to society, to employers, and to job seekers.

Investing in Workers, the first volume, discusses all job seekers—and particularly disadvantaged workers—as opportunities and assets rather than deficits. Workers left out of the recovery, such as the long-term unemployed or chronically unemployed youth, are important sources of new talent in a tight labor market. These workers also bring new and different perspectives at any point of the business cycle and can help drive innovation. Seeing these workers as opportunities to build new ideas and competitive advantage is important; it is also important for workers who are mired in poverty. It is vital to invest in core literacy and technical skills so these workers can create wealth and build assets. Several chapters in Volume 1 explore both skill development and supporting workers who have particular barriers to work and economic opportunity.

Investing in Work, the second volume, explores the extent to which firms are able to address human resource challenges and difficulties for their workers by investing in the jobs, fringe benefits, and structure of employment that workers encounter with employers. Many firms have found that offering enhanced quality of work and benefits helps attract more productive workers, boosts the productivity of current workers, and produces other tangible benefits, such as reduced turnover. Investments in work structure also include considering how changes to the employee-employer relationship help build wealth, such as through different models of employee ownership of firms and planned succession of ownership. Finally, investing in work includes place-based and job creation efforts. Volume 2 explores these issues broadly and specifically in rural areas in an effort to better align workforce development and economic development efforts. Considering both the supply of and demand for labor likely will improve the effectiveness of both efforts.

Investing in Systems for Employment Opportunity, the third volume, explores the different ways organizations and policymakers deliver training and support worker and business productivity. The stakeholders involved in these efforts are multiple and varied, including governmental entities, businesses, philanthropies, and nonprofits. Finding ways to coordinate across these different sectors for collective impact is critical. In addition, several important factors and trends could influence the strategies of these programs, individually or collectively. Innovations in technology may change the type of work people do and the products firms create, while also providing a new and different delivery system for training. Access to these technologies is also vital, since many communities are not well connected. New finance models may help attract new players and investors in workforce development and help drive investments toward the most effective interventions. Aligning efforts and aiding them with new innovations and business models could significantly increase the scale and scope of workforce development programs.

As you read this book, we hope you find information that helps you advance initiatives, policies, and worker and employer opportunities in your community or state. Please reach out to the authors and editors if you wish to learn more. We hope that you will see the need to understand workforce development as an investment, and that you discover strategies that will help you make progress in your own organization or in your efforts on workforce policy. We believe this mind-set and further engagement and investment in the workforce development system are necessary to expand opportunity for workers and employers and to promote economic growth in the country.

Notes

1. See Bricker et al. (2014), p. 4, note 7: "The components of income in the SCF are wages, self-employment and business income, taxable and tax-exempt interest, dividends, realized capital gains, food stamps and other related support programs provided by government, pensions and withdrawals from retirement accounts, Social Security, alimony and other support payments, and miscellaneous sources of income for all members of the primary economic unit in the household."

Because the measure is pretax, it does not include the boost to income provided by the earned income tax credit (EITC). Inclusion of the EITC, however, does not qualitatively change the conclusions presented here.

2. See note 1 for a definition of SCF household income.
3. See Burtless (2015) for an alternative view on government subsidization of low-wage employers. Burtless acknowledges the subsidy provided by programs that directly aid working adults, but he notes that programs that subsidize nonworking adults may reduce the supply of labor, thus raising wages in the relevant labor markets. This chapter is concerned with conditions for the working poor, and the implicit subsidy provided by programs that aid the working poor.
4. Notable examples include members of the American Sustainable Business Council, who commit to being high-road employers.
5. Economists should raise an eyebrow at such an imprecise term as *low prices*. But we have in mind the flat-to-declining prices of many manufactured goods, especially after adjusting for quality improvements, and the very low wages (and thus prices) paid to home health-care workers, for example.
6. The percentages are higher for all workers because public-sector workers have higher rates of unionization than private.
7. See Chetty et al. (2014) for a discussion on the generational nature of family poverty and its relationship with factors such as neighborhood-level income inequality.

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