



Making American Jobs Better for Everyone

Paul Osterman, Massachusetts Institute of Technology

Far too many jobs in the United States fall short of paying what it takes to raise a family and get ahead. Wages for almost one in five working adults are below \$10.65 an hour – which generates income equal to the official poverty line for a family of four as of 2010. In the real world, a family needs more than mere poverty-level income, and recent research shows that 44% of adults working full time take home less than what a family of four truly needs to cover basic expenses. What is more, low-wage jobs often lack important benefits such as health insurance.

Some people who start out with paltry earnings will find ways to climb the ladder into better jobs. But these days, many low wage workers remain trapped in bad jobs – leaving adults in poor health and children falling short at school. In a deeper sense, people who are scrambling to hold themselves and their families together economically cannot be fully functioning citizens or participants in society. America must find ways to generate more good jobs.

Myths that Block Action

Low-wage work may be far from ideal, but can we do anything about it? Far too many people who sympathize with the plight of low-wage workers mistakenly subscribe to myths that block corrective action. Good evidence explodes the leading excuses for doing nothing.

Myth 1: An Improving Economy Will Make the Problem Go Away

When our country climbs out of the current Great Recession, will we also put the problems of the low-wage labor market behind us? In the 1960s President Kennedy argued that “a rising tide lifts all boats.” After World War II, the U.S. economy worked that way. But in recent decades, the economic story has changed – as we can see by looking at what happened during the boom of the 1990s. An important study tracked low-wage earners during six years of rapid economic growth starting in 1992, and found that only 27 percent of them increased their earnings enough to lift a family of four out of poverty. Growth no longer pulls up most of those at the bottom of the wage scale. About one in five American workers has remained trapped below poverty-level earnings through good times and bad since the 1990s.

Myth 2: Policies to Improve Job Quality Hurt Economic Performance

Will efforts to improve job quality and shrink the low-wage sector backfire by damaging overall economic performance? Defenders of the U.S. status quo often use scare stories about Europe, where many nations have taken active steps to put a floor under wages and benefits. Have these efforts reduced employment overall? The best evidence suggests otherwise. An excellent measure of the success of an economy in generating jobs is the “employment-to-population ratio” – the fraction of the total adult population that holds jobs. Using this measure, there is no basis for claiming that America’s economy, which includes a large sector of low-wage positions, generates more jobs overall. The fraction of American men and women who have any kind of work is lower, for example, than the share of adult men and women who have jobs in France, Germany, Denmark, the Netherlands and Sweden. The United States also suffers from greater inequality in earnings and a substantially higher poverty rate than other developed nations.

Myth 3: American Workers Merely Earn What They Deserve

Many commentators argue that inadequate education and skills explain why so many American workers earn very little. Education and skill are unquestionably important. But blaming the low-wage problem entirely on educational shortfalls – even with problematic personal work habits thrown in – tells only part of the story. Studies that “control for” these factors still find a lot of adults trapped in low-wage jobs despite having school and work records that compare well to others who are better paid.

Evidence about the benefits of education focuses on what economists call “the margin” – what happens when an additional individual improves her education. This is the “tell your nephew to stay in school” approach – and, clearly, that is good advice to give to any particular youngster. But even if all of us told our offspring to stay in school (and they all listened!) that would not really solve the national problem. A simple thought experiment explains why: What if all the employees in low wage jobs suddenly acquired a community college degree or better; would the jobs they hold disappear? Would all of their wages rise? Over any reasonable period the answer is surely no. Not unless we as a nation find ways to improve wages and benefits in many workplaces.

Effective Steps to Improve Job Quality

American employers can offer better quality jobs – but only if government sets minimum requirements and offers incentives. Elements of a good strategy have been implemented in bits and pieces throughout the country, suggesting the building blocks for an overall national effort:

- **Regulate to Raise the Floor:** The minimum wage needs to be strengthened and enforced. In addition, cities and states have successfully experimented with innovative approaches. Tax incentives can bolster employers who offer good jobs; and living-wage ordinances and community-level agreements about basic benefits show promise.
- **Encourage Employee Voice:** When workers are unionized, wages and benefits improve – and polls consistently show that many workers want a chance to join unions. U.S. labor laws need to be modernized to prevent delays and harassment of union organizers. Unions must improve their game too. They should cooperate with community groups and update ways of doing things with members and employers.
- **Reward Firms for Training Workers:** If firms are pushed to improve their employment standards, they also need assistance to achieve productivity gains to pay the bill. Foundations have funded exemplary “career ladder” programs to subsidize employers who regularly upgrade employee skills, but efforts remain on a shoestring budget. Sustained funding through government could reach thousands of firms at once.

Read more in Paul Osterman and Beth Shulman, *Good Jobs America: How to Make Work Better for Everyone* (Russell Sage, 2011).