

SECTION 1 • CHAPTER 3

# Raise workplace standards



United Auto Workers Local 174 president John Zimmick works in his office in Romulus, Michigan, Mar. 22, 2013.

AP PHOTO/PAUL SANCYA

**G**ood jobs are the centerpiece of building a strong middle class that can contribute to economic growth. A family that has good jobs is a family that can contribute to building a community that offers good education for its children, that doesn't miss days of work because of ill health, that can take the risk of starting its own business, that can spend its time doing more than struggling to get by, and that can contribute to national innovation.

Good jobs also enable workers to purchase more goods and services, thereby providing the economic demand that gives firms the confidence to make new investments. Similarly, workers have lower rates of turnover and absenteeism when they have good jobs are thus are more productive.

In a sense, this entire policy agenda is about creating good jobs. That is, of course, the ultimate goal of a sensibly designed economic agenda—even if mediated through other policies such as education or trade law.

But there are also direct interventions that can make more jobs good jobs.

What makes a job a good job? Pay obviously matters. But what about health insurance or retirement security? As the family structure has changed and most workers now have to take on responsibilities to care for the young, the aging, and the sick, paid leave and family friendliness are also critical elements of a good job. Other features of good jobs include disability insurance and severance pay in the event of dismissal.

One way to make all jobs in the United States good jobs, at least by some measures, is to make these features of employment universal. Short of universality, though, features that are important in a good job can be made more widespread by way of policies that create incentives to employers to provide those benefits or make it easier for employees to provide them for themselves.


- Increase income
- Raise federal contracting standards

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## Policies to boost retirement security

The retirement-savings system is obviously important to each of us individually. But it is also important to us collectively, especially as our population ages. A system in which people undersave during their working years burdens each subsequent generation that must support them. This strain on subsequent generations puts a strain on the whole economy because it undermines a secure standing in the middle class. And workers without a secure retirement base are less likely to take risks such as starting a business, going back to school to change careers, or saving for their children's education. In addition, a system that structures benefits in a way that requires people who have the means and will to save for their retirement to oversave to protect against the "risk" of living a very long life is inefficient.

The biggest problem currently facing our retirement system is undersaving. As the first generation of workers depending primarily on 401(k) plans rather than the increasingly rare but more secure defined-benefit pension starts to retire, it is clear that the private-retirement system is failing many Americans. The typical near-retirement-age worker with a 401(k) has accumulated enough money to provide a monthly retirement payment of only about \$575, and that small amount is at greater risk than if it came from a traditional



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Below is a set of such policies, as well as some that directly affect pay and those designed to level the playing field of the employment relationship, particularly the ability to join a union. These policies will:

- Boost retirement security
- Make jobs more secure for those with families
- Help bridge periods of unemployment

# Raising workplace standards

**Problem:** Many of our jobs lack benefits and protections that other countries take for granted such as sufficient minimum pay, pensions, leave time, and effective collective-bargaining rights. Without these workplace standards, we have a weakened middle class, as many of our 300 million engines of growth are unable to produce to their full potential.

**Solution:** Require paid leave and sick days, better protection in the event of layoffs, a higher minimum wage, better forms of retirement savings, and protection of the right of workers to join a union.

## Key policy ideas:

- Give workers access to SAFE Retirement Plans—a hybrid between a traditional pension and a 401(k) plan, with many of the benefits of both.
- Expand access to subsidized child care for low-income parents by doubling access to federally subsidized child care for low-income families from 22 percent to 44 percent.
- Create a Universal Savings Credit that replaces all current employer and employee deductions for retirement, health, and education, and correct the upside-down nature of current incentives that confer the greatest benefits on the wealthy.
- Require adequate severance packages for all employees of companies that offer “golden parachutes” to their top executives.
- Create Social Security Cares to provide up to 12 weeks of partial wage replacement to support workers who need to take time off to care for a new child or a seriously ill family member.
- Increase the minimum wage to half of average income.
- Enable workers to join unions by passing the Employee Free Choice Act, as well as making the right to join a union a civil right.

Other proposed wage and benefit policies in this report include reforms to the unemployment system, passing the Paycheck Fairness Act, raising federal contracting standards to promote worker-friendly policies, and the promotion of inclusive capitalism.

**Outcomes:** The United States will lead rather than lag behind the world in policies that strengthen workers and enhance their security. All workers will have paid family and medical leave and access to high-quality child care. More than 90 percent of near-retirees will have retirement savings sufficient to last their life expectancy. ■



Iowa Dept. of Administrative Services employee Sharleen Newton, who plans to retire after 35 years with the state, sorts through retirement applications in her office in the Hoover Building, Apr. 7, 2010, in Des Moines.  
AP PHOTO/CHARLIE NEIBERGALL

pension.<sup>1</sup> Making matters worse, less than half of all workers even have a retirement plan at work, and that figure has been declining over the past few decades.<sup>2</sup>

Americans, therefore, are deeply worried about their ability to retire: Half of all workers say they are not confident that they will have enough money for retirement.<sup>3</sup> Indeed, the accounting firm Ernst & Young estimates that 59 percent of new middle-class retirees will outlive their retirement savings.<sup>4</sup> Boston College's National Retirement Risk Index estimates that 51 percent of households are at risk of having an insecure retirement, meaning they will be unable to maintain their preretirement standard of living.<sup>5</sup>

Social Security provides an essential baseline of income for retirees, and it must be strengthened to ensure that it continues to do so, as the Center for American Progress has already proposed.<sup>6</sup> But Social Security was never intended to be people's only source of income for a comfortable retirement. As a result, the failure of the private-retirement system could have devastating human and economic consequences.

A private-retirement system that increases savings and security, on the other hand, would have a number of positive economic consequences. First, boosting retirement savings would lead to a greater pool of patient, long-term capital available for productive invest-

ments. Second, retirement security enables people to take full advantage of their productive capabilities. Having a secure base enables people to take risks such as starting a business or going back to school to change careers, and it protects the next generation from having to provide for aging parents. Finally, when people have adequate personal retirement savings, they have less need for government services.

To enable more Americans to retire with dignity and receive the economic benefits of doing so, we must make saving for retirement easier, cheaper, and more secure.<sup>7</sup> We can do this by:

- Creating a new SAFE Retirement Plan—a hybrid plan that takes the best qualities of both traditional pensions and 401(k) plans
- Opening up to the public the Thrift Savings Plan—the 401(k) for federal employees that has model features such as low fees and sensible investment options
- Reforming tax incentives for retirement savings by establishing a new Universal Savings Credit

Under these proposals Americans would be covered for retirement in one of the following ways: under their current pension or 401(k) plan, under a SAFE Retirement Plan, or through an expanded Thrift Savings Plan. They would also benefit from a more effective incentive to save via the Universal Savings Credit.

We also recommend requiring automatic enrollment in plans in order to boost participation and increase savings balances.

### *Create a SAFE Retirement Plan*

The Secure, Accessible, Flexible, and Efficient Retirement Plan, or SAFE Retirement Plan, takes some of the best parts of defined-contribution plans such as 401(k)s and the best parts of defined-benefit plans such as traditional pensions, including consistent monthly payments, portability, and constant cost to employers.

What makes this plan unique is that the risks of not meeting target benefits would be spread among a broad swath of workers and retirees over a long time horizon rather than borne solely by employers, as they are in a traditional pension plan, or by individual workers, as they are in a 401(k). While payout levels in the SAFE Retirement Plan are not guaranteed, the plan is far less risky for workers and retirees than a 401(k) because its long investment time horizons produce more stable and predictable investment returns, and risk is more broadly shared.<sup>8</sup>

This hybrid approach is also much more efficient than a 401(k). Compared to a typical 401(k) plan, the SAFE Retirement Plan would provide the cost efficiencies of a defined-benefit pension—46 percent lower costs that come from professional money management, long investment time horizons as an ongoing investment fund, and the ability to spread risks across multiple generations.<sup>9</sup>

More details about the SAFE Retirement Plan can be found in a CAP report, “Making Saving for Retirement Cheaper, Easier, and More Secure.”<sup>10</sup> This model has been working well in the Netherlands.<sup>11</sup>

## *Open up the federal Thrift Savings Plan to the public*

Despite the cost and risk advantages of a SAFE Retirement Plan, some people prefer to have greater control over investments and other decisions, as allowed in 401(k)-style plans. These people should be able to invest in the Thrift Savings Plan, the 401(k)-style plan currently available for federal employees. As the Center for American Progress wrote in “The Promise and the Peril of a Model 401(k) Plan,” the Thrift Savings Plan is a model 401(k) because it has, among other features, very low fees, strong oversight, smart and limited investment options, and an annuity option.<sup>12</sup>

Previous CAP research indicates that these low fees enable the typical worker earning \$30,000 per year to gain the equivalent of an additional \$900 per year of contributions.<sup>13</sup>

## *Create a Universal Savings Credit*

To complement these new retirement savings vehicles, we would reform the retirement savings provisions in the tax code to simplify the system and allow for more equitable savings incentives for low- and middle-income earners.

Policy measures to help people build more wealth already exist. There are tax advantages to saving for retirement, education, and health care. But these existing savings incentives are inefficient in that they create few additional savings for the foregone tax revenue. The inefficiencies exist because the tax advantages favor especially high-income earners with high marginal tax rates, who often do not need to save more and simply take advantage of the tax rules to shift savings from non-tax-advantaged forms to tax-advantaged forms. That is, most of the existing savings would have happened anyway, and the tax incentives are largely just a windfall for higher-income taxpayers. The myriad existing savings incentives are also complex, raising the administrative burden of the U.S. savings system, complicating the tax code, and prompting the creation and use of tax shelters.

We propose streamlining all existing savings incentives into one Universal Savings Credit. The Universal Savings Credit would create a single refundable credit that would replace all employer and employee deductions to retirement, health, and education savings accounts. The credit will be a flat matching percent of all contributions to qualified savings vehicles. There will be progressive savings matches and a credit that is at least equivalent to a tax deduction that will leave the vast majority of taxpayers either as well off or better off with the Universal Savings Credit than they are with current incentives.

This will lead to more economic security for millions of middle-class households because they will receive a larger tax incentive for saving than is currently the case, and because the U.S. savings system will become more comprehensible. Greater efficiencies will allow people to keep more of their money and take better advantage of savings incentives than is currently the case, thus creating more wealth



In this Apr. 19, 2013 photo, Jen Grey, center, works with her children on projects in Barre, Vermont.  
AP PHOTO/TOBY TALBOT

and economic security, which will lead to faster economic growth.

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## Policies to make jobs more secure for those with families

It used to be that most families had a stay-at-home spouse, most often a wife, who could care for the young, the aging, and the sick. Now, most workers have to take on these responsibilities of care since most wives have jobs, and there are more single-parent households. Yet our public policies do not universally guarantee the availability of time off to deal with personal or family emergencies. Public policy does not even guarantee

sick days, let alone paid sick days, and child care is out of reach for millions of families with incomes too high to qualify for a subsidy but too low to afford care on their own.

To keep workers on the job and productive requires that we find new ways for them to have time to balance care and work.

Most workers lack access to paid family and medical leave through their employers, with negative consequences for individual workers and the economy overall. As workers with care responsibilities withdraw from the workforce or limit their time at work, the national economy is denied the benefits of their skills, they take home less income in the short run,



are less likely to earn raises and promotions at the same pace as their peers, and have less access to retirement benefits.<sup>14</sup>

National data consistently show that access to any form of parental leave, paid or unpaid, makes women more likely to return to work after giving birth.<sup>15</sup> Among new mothers who worked while pregnant and were able to take paid leave, approximately 9 in 10 (87.4 percent) returned to work within one year of giving birth. In contrast, among new mothers who had to quit their jobs, just less than half (48.2 percent) returned to work within a year; among new mothers who were let go, just more than half (55.7 percent) returned to work within a year.<sup>16</sup> Women who take paid leave and return to work are 39 percent less likely to receive public assistance and 40 percent less likely to receive food stamps in the year following a child's birth than women who return to work without taking leave.<sup>17</sup>

Paid leave makes similarly sound economic sense for workers needing time off to provide care for an ill family member or to recover from their own serious illness. A study conducted by the National Alliance for Caregiving and the American Association of Retired Persons found that, of the approximately 65.7 million Americans who serve as unpaid caregivers to the elderly or special-needs children, two-thirds reported a reduction in their labor-force participation. A further one in five reported taking a leave of absence to deal with their caregiving responsibilities.<sup>18</sup> Rather than forcing workers to reduce their work hours or quit their jobs, paid family and medical leave would enable

them to provide care and facilitate their return to work afterward.

Workers also need time away from work to recover after their own serious illnesses, yet only five states offer temporary disability insurance to workers and only 37 percent of workers have access to it through their employer.<sup>19</sup> Without paid leave, workers often return to work before they are fully recovered for financial reasons. Access to paid leave is associated with workers experiencing quicker, more complete medical recoveries.<sup>20</sup>

Offering paid family and medical leave would make workers more likely to return to employment and to return more quickly than if they were fired or forced to quit when they need medical or caregiving leave. Guaranteeing paid sick leave will mean that workers don't have to show up to work sick or risk losing their jobs for catching the flu. And expanding access to subsidized child care and enhancing the quality of child care will allow more of our engines of growth to return to the workforce and build their skills. The discussion that follows details this three-pronged approach.

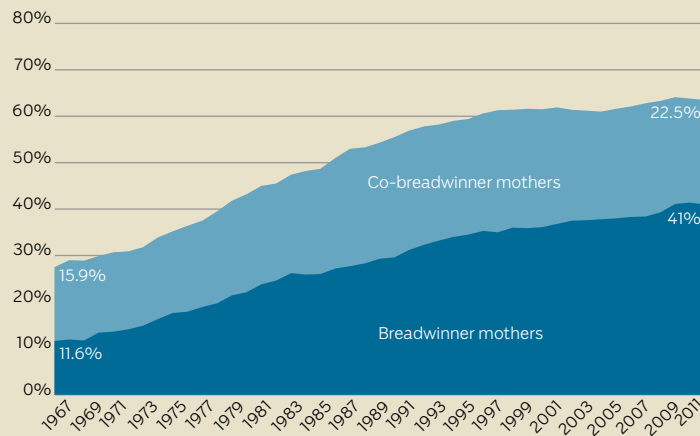
### *Implement Social Security Cares, a national paid family and medical leave program*

To ensure families' economic security and a stronger economy, which are both facilitated through sustained employment, we propose the adoption of Social Security Cares, a national paid family and medical leave program that promotes smooth workforce

## Economic security for women and families<sup>24</sup>

Today's families are increasingly reliant upon working mothers as breadwinners or co-breadwinners. (see Figure 3) Four in five U.S. families with children are headed by either two working parents or a single working parent, and thus most families have to navigate issues such as costly or inadequate child care, a lack of paid family leave, and the persistent wage gap, just to name a few.

FIGURE 3  
Share of mothers who are breadwinners or co-breadwinners, 1967–2011



Source: Sarah Jane Glynn and Jeff Chapman's analysis of Miriam King and others, "Integrated Public Use Microdata Series, Current Population Survey: Version 3.0," available at <https://cps.ipums.org/cps/index.shtml> (last accessed May 2013).

While social and economic changes created this new reality, political decisions have shaped the struggles so many families now face. Our nation's lawmakers have failed to craft public policies that effectively address today's challenges and make this possible. Working women are especially disadvantaged by the lack of policy solutions, in part because they continue to take on a larger share of the family caretaking responsibilities—for both the young and elderly members of their families—and because the hurdles they face in the workplace and at home only compound over time, setting them back economically in ever-worsening ways over the course of their lifetimes.

Throughout this report we propose policies to improve women's lives and build family economic security—from universal childcare to paid sick days to policies that will make work more remunerative such as increasing the minimum wage.

re-entry after taking time off due to the arrival of a new child, the need to care for a seriously ill family member, or a worker's own serious illness. It would be administered through the Social Security Administration, which has the existing capacity to determine eligibility and

process payments.<sup>21</sup> As described in the 2012 Center for American Progress report, "Social Security Cares: Why America Is Ready for Paid Family and Medical Leave," this initiative would provide up to 12 weeks of partial wage replacement for time off to care for a new child or


seriously ill family member or to recover from one's own serious illness. Eligibility would be based on the same criteria as Social Security Disability Insurance, which requires a recent work history that is age-adjusted to allow younger workers and those who have recently graduated college to still qualify.<sup>22</sup>

Because Social Security Cares could be funded through a small increase (less than 0.5 percent) in the payroll tax, the cost to the government would be limited to the initial start-up costs to the administration. For a complete discussion of ways Social Security Cares can be funded, see the 2009 CAP report, titled "Helping Breadwinners When It Can't Wait," and the 2010 report, titled "Building It Up, Not Tearing It Down."<sup>23</sup>

it also has benefits for the larger economy by reducing emergency room health care costs,<sup>26</sup> and it saves businesses money by helping them retain their workers.<sup>27</sup>

In order to promote employment security and ensure that workers do not have to choose between their job and their health or the health of their families, we propose guaranteeing workers the right to paid sick days. The United States is the only advanced economy that does not guarantee paid sick days.<sup>28</sup> Forty percent of U.S. private-sector workers today have no such leave,<sup>29</sup> and nearly a quarter (23 percent) of adults say they have either lost a job or been threatened with job loss for taking time off from work when they or a family member were sick.<sup>30</sup> Workers who lack access to paid sick days are 1.5 times more likely to go to work sick than those who are able to take paid leave.<sup>31</sup> This includes more than two-thirds of restaurant workers who report having served, cooked, or prepared food while ill.<sup>32</sup>

These actions have real costs for employers and the economy. According to recent research from the U.S. Centers for Disease Control and Prevention's National Institute for Occupational Safety and Health, workers with paid sick leave are 28 percent less likely to suffer nonfatal work-related injuries.<sup>33</sup> Higher workplace injuries drive up employer worker-compensation costs. In general, the absence of paid leave was found to contribute to low productivity and high employer costs. The *Journal of Business and Economics* reported on the cost of "presenteeism"—being at work but sick



## The United States is the only advanced economy that does not guarantee paid sick days.

### *Guarantee workers the right to paid sick days*

Providing paid sick days to workers has benefits for individual families such as helping the one-third of parents with children under age 6 in child care who worry about losing their pay or their job if their child gets sick.<sup>25</sup> But



In this photo taken, Apr. 18, 2013, Johnathan Lara, an employee of the child care center at the California Family Fitness center, plays with a toddler at the center in Sacramento. AP PHOTO/RICH PEDRONCELLI

and underproductive—and found that it costs employers \$180 billion annually, far outpacing the cost of employee absenteeism.<sup>34</sup>

We propose allowing workers to earn paid sick days that can be taken to recover from illness or to care for an ill family member, receive preventative care, or recover or seek services in connection with sexual assault, stalking, or domestic violence. As outlined in the Healthy Families Act, workers would accrue up to seven sick days per year, with at least one hour of paid sick time earned for every 30 hours worked and the option for employers to provide more time if they choose.<sup>35</sup>

### *Provide quality child care to young children of working parents*

We know that expanding access to high-quality child care is critical for children. But investing in child care will also generate large benefits for parents and employers and will help spur economic growth. Studies have demonstrated that parents with reliable child care are better able to get and maintain jobs and are able to work longer hours and earn more income.<sup>36</sup> Improving the availability of child care could also save employers billions of dollars from avoided employee absences and increased worker productivity.<sup>37</sup>

As CAP describes in its report, “Investing in Our Children,” in addition to our proposal for pre-K education described earlier in this report, we propose overhauling the existing federal child care funding system for children ages 0 to 3 years old.<sup>38</sup> This overhaul would:

- Expand access to subsidized child care by doubling access to federally subsidized child care for low-income families, from 22 percent to 44 percent.
- Increase the federal child care subsidy to make child care more affordable. The size of the federal subsidy currently falls considerably below the average cost of care.<sup>39</sup> This subsidy gap creates significant affordability challenges even for those low-income families who are lucky enough to receive any subsidy.
- Improve the quality of child care by requiring states to adopt child care standards that are developmentally appropriate, cover all essential areas, and promote early learning gains.
- Double enrollment in Early Head Start, an extremely effective education program for young children.

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## Policies to help bridge periods of unemployment

The unemployment-insurance system supports economic growth in times of high unemployment by making sure that, even when unemployed, workers can

afford basics, keeping commerce alive even in times of high unemployment. The unemployment-insurance system is one of the most important economic stabilizers we have. It also promotes labor-market efficiency because workers with access to unemployment benefits do better at matching their skills with new job offers.<sup>40</sup> To ensure that this system works and that workers aren’t knocked out of the middle class due to temporary job loss, we propose reforming the unemployment-insurance system to improve its effectiveness and to improve national equity in the program.

### *Expand and reform the unemployment-insurance system with ‘automatic triggers’*

In good times, when unemployment is low and growth is high, more money flows into the unemployment-insurance system because employers pay taxes for every employee on their payroll. In times of high unemployment, when growth is faltering, employers pay less in taxes because they have fewer employees, and workers get access to income to tide them over while they search for a new job. These payments help stabilize demand and shore up family budgets. Estimates are that unemployment benefits added \$2 to the economy for every \$1 spent on the program during the past few years.<sup>41</sup>

To be an effective automatic macroeconomic stabilizer, the unemployment-insurance system must also replace a reasonable share of unemployed workers’ lost income for a

significant share of workers still looking for a job. Further, benefits must be available for a reasonable amount of time, relative to macroeconomic conditions. Thus, as the unemployment rate rises, and the probability of finding a job falls, unemployed workers will need more weeks of benefits.<sup>42</sup> Finally, the system must remain solvent in the process of meeting these two goals.

The unemployment-insurance system is currently successful at neither reasonable wage replacement nor covering everyone who is involuntarily unemployed. The Great Recession has shown that most of the state trust funds were undercapitalized, and the shortfall further limited the effectiveness of unemployment insurance as an automatic stabilizer. The Department of Labor reports that the typical worker only has about one-third of his or her pre-job-loss wages covered by unemployment benefits,<sup>43</sup> and benefits fail to adjust sufficiently during periods of high unemployment. Furthermore, there are wide differences in benefit levels across states and across workers, another factor that limits the automatic stabilizing impact of the unemployment-insurance system.

In looking at the effects of the unemployment-insurance program on economic growth across states, economist Wayne Vroman of the Urban Institute found that states that covered more unemployed workers were 50 percent more effective in stabilizing their economies through unemployment benefits, compared to states that covered fewer unemployed workers.<sup>44</sup>

We propose to:

- Provide greater federal support to ensure greater benefit parity across states and greater parity in eligibility, which will promote equity, as well as greater macroeconomic growth and stability across states.
- Reform the “automatic trigger” at the state level so that when unemployment rises, unemployment benefits provide more weeks of benefits automatically—rather than requiring an act of Congress—until the unemployment rate comes back down.

We describe this plan in greater detail in the report, “Toward a Strong Unemployment Insurance System.”<sup>45</sup>

We should not wait until the next economic crisis to proceed with needed reforms to the federal and state roles and responsibilities for oversight and funding of the unemployment insurance system. We know the system has real flaws, and fixing them now will put the economy on firmer footing if another downward swing puts large numbers of Americans out of work.

*Require that companies that give bosses ‘golden parachutes’ also give ordinary workers reasonable severance*

Workers who lose their jobs often receive no help from their former employers and are forced to rely solely on inadequate unemployment benefits while they look for a new job. Meanwhile, chief executives who lose their



In this Jul. 18, 2012 photo, from left, family members Trenton Sunderland, Mandy Sunderland, Kenny Vassar and Lyndell Vassar, prepare food at their Dairy Queen restaurant in Woodward, Oklahoma.

AP PHOTO/SUE OGRÖCKI

jobs—even in cases of poor performance or misconduct—often receive golden parachutes worth millions of dollars. In 2011, 78 percent of CEOs and 80 percent of nonexecutive officers had golden parachutes that provided cash severance payments.<sup>46</sup>

This double standard undermines the American notion of fairness in the workplace and weakens middle-class families. If it makes sense to give golden parachutes to highly paid CEOs, who are likely to have considerable wealth to protect them against a loss of employment, then it makes even more sense to offer at least an adequate level of severance to rank-and-file employees—who are unlikely

to have assets to fall back on and who are more likely to lose their jobs through no fault of their own. That is why we propose requiring that public companies offering severance packages to their top executives also offer adequate severance to all other employees.

This policy will provide a two-fold benefit for the middle class. First, it would enhance economic security by requiring many companies to provide adequate severance in the event of layoffs. Second, it would discourage the excessive golden parachutes that waste corporate resources. In addition, as is true of unemployment benefits, it would help the national economy during economic downturns

by providing middle-class workers with the means to maintain a somewhat higher level of consumption when they are between jobs.<sup>47</sup>

We propose that if a company offers a severance package to its executives in excess of the CEO's base pay, it must also offer to the rest of its workers at least a basic severance package of two weeks of pay per year of service. This policy would give employees terminated without cause a legal right to reasonable severance benefits if the company's executives have a severance provision in their contracts or if they have been given a golden parachute upon dismissal. Our policy would ensure that companies would no longer be able to offer extravagant landings to their top executives while denying workers basic protections.

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## Policies to increase income

Policies to strengthen and grow the middle class by increasing income have benefits both for American workers and also for the country's economic growth. As incomes rise, so, too, does demand, which in turn fuels economic growth.

### *Increase the minimum wage and index it to market wages*

For approximately 20 years, from the late 1940s to the late 1960s, the minimum wage was roughly 50 percent of the average wage.<sup>48</sup> Unfortunately, over the past four decades we have allowed the value of the minimum



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wage to decline significantly, even as workers have become much more productive and the country much richer.

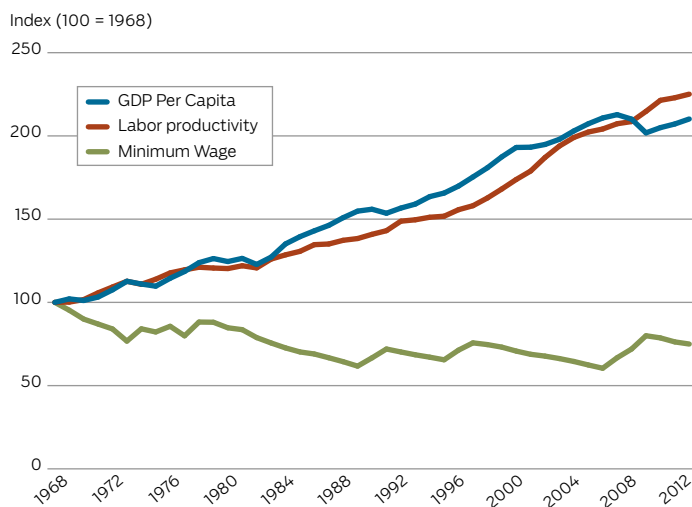
Since 1968 the inflation-adjusted value of the minimum wage has declined by 31 percent and is now far less than half the average wage.<sup>49</sup> On February 1, 1968, the minimum wage was \$10.50 in today's dollars, compared to \$7.25 today.<sup>50</sup> Over the same time period, worker productivity (the measure of output per hour of work) increased by 123 percent, and inflation-adjusted per capita gross domestic product grew by 105 percent.<sup>51</sup> (see Figure 4)



Increases in the minimum wage don't just raise wages for those earning the minimum wage; they spill over and ripple out to boost wages for those higher up the wage ladder and closer to the middle class.<sup>52</sup>

FIGURE 4

### The minimum wage has fallen behind, while worker productivity and GDP per capita have climbed



Source: Authors' calculations using data from the Bureau of Labor Statistics, Bureau of Economic Analysis, and the Wage and Hour Division of the Department of Labor.

Not only would an increased minimum wage be of direct help to workers, but it is also likely to increase the economy's output. The minimum wage helps increase productivity in several distinct ways. Increasing wages can improve morale and effort and therefore boost productivity.<sup>53</sup> A higher minimum wage also has been shown to reduce turnover, as workers remain in their jobs longer.<sup>54</sup> Finally, raising wages boosts consumer demand, which will help the recovery in the short term and spur business to make new

investments in the future.<sup>55</sup> Researchers at the Federal Reserve Bank of Chicago found that a \$1 minimum-wage increase boosts household income and spending by \$2,800 over the year.<sup>56</sup>

Opponents of raising the minimum wage claim that it will reduce employment, especially now, when unemployment is already elevated. A significant body of academic research, however, has found that raising the minimum wage does not result in net job losses, even during hard times.<sup>57</sup>

We propose that the minimum wage be increased and then annually indexed to the growth of the average wage—as measured on a three-year moving average to smooth out temporary fluctuations. Indexing to inflation is good, but indexing to one-half of the average wage would be better because it would help ensure that workers reap some of the economic gains they help create and would also raise living standards as the country becomes richer.

We should also increase the sub-minimum wage for tipped employees to the same level as other workers.

### *Ensure that workers who want to form a union are able to do so*

Union membership is at record lows. Critics claim that, with only 12 percent of workers currently unionized, unions are not important to the modern economy. But the truth is that if you care about rebuilding the middle class and the economy, you also should care about unions.

Indeed, boosting union membership is one of the most important things that can be done to increase wages and benefits, reduce inequality, and strengthen and grow the middle class. Unions—especially in workplaces with other high-performance practices—help boost the productivity of workers by reducing turnover, giving workers communication channels to improve conditions, and increasing the availability and quality of training programs.<sup>58</sup>

Today the union-election process is stacked against workers who want to form a union. It works as follows. First, workers discuss the issue among themselves and then gather at least 30 percent (but usually more than half) of the workers' signatures to ask for an election. Then the National Labor Relations Board, or NLRB, attempts to set up an election, and in the election a majority of workers must vote to form a union in order for one to be certified.

Companies have many tools available to oppose the union, even while the election process is underway. They can legally require workers to attend anti-union meetings, compel employees to have one-on-one conversations with their direct supervisor, and prevent workers from discussing the union except outside of work or when they are on break. The pro-union workers must campaign during nonwork hours, and yet they face outdated regulations that allow employers to provide less than full contact details—no email addresses, for example.

When companies cross the line—harassing and intimidating workers or even firing



## **Boosting union membership is one of the most important things that can be done to increase wages and benefits, reduce inequality, and strengthen and grow the middle class.**

them—enforcement is difficult, and the penalties for violating labor laws are insufficient. Enforcement comes far too late to make a difference, and penalties are often so low that many anti-union corporations view it as a cost of doing business.

Moreover, companies are able to manipulate the system with frivolous pre-election hearings to delay elections and prevent them from ever occurring.<sup>59</sup> According to research by John-Paul Ferguson of Stanford Business School, 35 percent of the time that workers file a petition for an union election, the election does not take place.<sup>60</sup>

And after workers have voted for a union as their bargaining representative, many corporations still fight the union by delaying negotiation of a first contract that governs wages, benefits, and working conditions. As a result, just more than half of newly elected unions

reach a first contract with their employer after two full years of so-called negotiations.<sup>61</sup>

Workers have a fundamental right to organize unions and collectively bargain. But today the system is so broken that anti-union employers who blatantly violate this right face few repercussions.

To ensure that workers who want to form a union are able to do so, the following changes need to be implemented:

- The National Labor Relations Board should help put an end to needless election delays and modernize the union election process by enacting regulations that reduce unnecessary litigation, streamline pre- and postelection procedures, and facilitate communications via the kinds of digital channels upon which people now depend.<sup>62</sup>
- Congress should pass comprehensive labor-law reform such as the Employee Free Choice Act, which establishes a fair process for workers to decide on union representation; expands coverage so more workers are provided the right to organize; establishes meaningful penalties and remedies for workers who are fired or discriminated against for exercising their right to organize; and includes measures to promote productive collective bargaining for first contracts—so that workers can negotiate for improved wages and benefits.<sup>63</sup>
- Congress should make the right to join a union a civil right.<sup>64</sup> This would give workers who are discriminated against in exercising

their right to organize a private right to sue, just as workers have a right to sue if they face other forms of workplace discrimination.

### *Pass the Paycheck Fairness Act*

In 2010, the latest year for which data are available, the average woman working full time year round earned 77 percent of what the average full-time year-round male worker earned.<sup>69</sup> The gender wage gap persists even when taking into account years of experience, job tenure, education level, and time out of the workforce.<sup>70</sup> In fact, even when factors such as race, occupation, work experience, and union membership are taken into account, about 40 percent of the wage gap remains “unexplainable by measureable factors.”<sup>71</sup> Workers with the same educational achievements—same type of college, same grades, same fields of study—who take the same kinds of jobs and have the same kinds of families still end up earning different salaries based on gender. College-educated women earn about 5 percent less than their male peers straight out of college, and the wage gap grows to about 12 percent 10 years later, even when they keep working on par with those men.<sup>72</sup>

With approximately two-thirds of women either breadwinners or co-breadwinners for their families,<sup>73</sup> a woman’s loss of wages from gender discrimination has a significant economic impact. The Paycheck Fairness Act would be an important step in helping close the gender wage gap by banning workplace policies that prohibit workers from dis-

## Unions are a source of strength for the middle class

Sociologists Bruce Western of Harvard University and Jake Rosenfeld of the University of Washington have calculated that one-third of the increase in male wage inequality from 1973 to 2007 was due to decreasing unionization—about the same amount they ascribed to the increasing payoff of a college education.<sup>65</sup> Similarly, research by the Center for American Progress Action Fund found that if unionization rates increased by 10 percentage points—to roughly the level they were in 1980—the typical middle-class household, unionized or not, would earn \$1,501 more a year, about the same effect as boosting college graduation rates by the same margin.<sup>66</sup>

As unions became weaker over the past four decades, they became less able to achieve their objectives for workers—and the middle class has paid the price. In 1968, when 28 percent of all workers were members of unions, the share of income going to the nation's middle class was 53.2 percent.<sup>67</sup> Since then, union membership steadily declined alongside the share of income going to the middle class. By 2011 the middle class received only 45.7 percent of income, the smallest share since these data have been reported, and union membership had dropped to less than 12 percent of workers.<sup>68</sup>

cussing their salaries with co-workers, and providing funding for negotiation training for women and girls.

### *Promote inclusive capitalism*

Inclusive capitalism—granting workers ownership stakes in a company or a share of its profits based on workers' collective performance—encompasses everything from broad-based profit sharing and stock options to worker cooperatives and employee stock-ownership plans. For workers, inclusive capitalism often empowers them by increasing their participation in decision making,<sup>74</sup> and it is associated with higher pay and benefits,<sup>75</sup> as well as greater long-term wealth accumulation.<sup>76</sup>

For businesses, inclusive capitalism is often associated with increased productivity, profitability, and likelihood of survival, as well as greater worker loyalty and effort, lower turnover rates, and a greater willingness on the part of workers to suggest innovations.<sup>77</sup> Investors also come out ahead when companies adopt capital-sharing programs since companies that adopt partnership approaches make profits over and above the cost of sharing ownership with employees, according to a review of more than 70 empirical studies.<sup>78</sup>

Despite the positive benefits of inclusive capitalism, more than half of all workers have no access to inclusive-capitalism programs.<sup>79</sup> One of the reasons why more companies haven't developed broad-based



In this Mar. 6, 2012 photo, an ironworker with Local Union 416, carries steel rods for a retaining wall at a construction site in Los Angeles.

AP PHOTO/DAMIAN DOVARGANES

profit-sharing programs is that, for some, these programs simply aren't on the radar as a way to improve firm performance and reward and empower employees. Business schools don't commonly teach inclusive-capitalism programs, government unevenly promotes them, and companies that would benefit from them often don't have the technical expertise or knowledge to adopt them.

The federal government can encourage more companies to adopt broad-based sharing programs by creating an Office of Inclusive Capitalism, housed in the Department of

Commerce (or the reorganized Department of Competitiveness, as we advocate for later in this report). The office would fund regional assistance centers to promote outreach and provide technical assistance to private-sector businesses, incentivize universities to increase awareness and study of inclusive capitalism programs among emerging business leaders and academia, and serve to improve government knowledge and support for inclusive capitalism. The office would also be able to promote awareness of benefit corporations—more commonly called B-corps—so that entrepreneurs who are interested in

incorporating their businesses include in their charters the responsibility to benefit both shareholders and society.

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## Policies to raise federal contracting standards

As a major purchaser of goods and services, the federal government has the potential to significantly influence the labor market. More than one-fifth of the American workforce—approximately 26 million workers—are employed by companies that have contracts with the federal government.<sup>80</sup>

Unfortunately, millions of federal contract workers are paid very low wages, and their employers too often do not comply with federal wage and safety laws.<sup>81</sup> By continuing to do business with companies that fail to comply with the law and that pay very low wages, the federal government drives down standards, makes it hard for companies with better workplace practices to compete, and contributes to the weakening of the middle class.

Instead, the government should leverage its power as a major purchaser of goods and services to raise workplace standards. Indeed, when the federal government has used its purchasing power to raise standards—for example, ensuring that contractors ensure equal opportunity to women and minorities—it has had significant success.<sup>82</sup>

Congress should enact legislation to ensure that government stops awarding federal contracts to companies that significantly and persistently violate the law and instead encourages agencies to do business with companies that provide middle-class jobs.<sup>83</sup>

It can do this by:

- Clarifying the standards for evaluating whether bidders demonstrate a satisfactory responsibility record
- Strengthening the existing contractor-responsibility database by including contractors' complete records of legal violations—including workplace-law violations
- Requiring that the appropriate government agencies supply guidance to government-procurement officials on how to interpret a company's legal record
- Increasing public access to responsibility and workplace information
- Requiring that federal agencies evaluate contract bidders on the quality of their labor and workplace practices, just as is done for a bidders' past performance, small-business subcontracting plan, technical approach, and managerial capacity

This proposal is explained in more detail in the CAP report, "High Road Government."<sup>84</sup> ■

# Policies to move Americans out of poverty

The strategy described in this report rests on growing and strengthening America's middle class. As highlighted at the start of this section, a key component of this is moving Americans out of poverty and into the middle class. In effect, then, every policy in this document that is pro-growth and pro-jobs is also designed to be antipoverty.

That said, it is worth detailing just how much work we have to do in this space, along with some specific policies that are acutely important to alleviating the incredibly high human costs of poverty.

About 46 million Americans live under the poverty line, but a full one in three struggle to get by on low incomes, undermining their potential as part of the country's 300 million engines of growth.<sup>85</sup> In addition to the enormous toll this takes on people and communities, allowing 15 percent of the population to live below the poverty line hampers our ability to maximize human potential and grow the economy.<sup>86</sup>

The detrimental effects of poverty are especially apparent when one considers that 16 million of the Americans living in poverty are children under the age of 18,<sup>87</sup> and that the United States has the second-highest child-poverty rate in the developed world.<sup>88</sup>

Changing this reality is an economic imperative, as well as a moral one. A growing body of economic research demonstrates that high levels of poverty hinder overall economic growth. In 2007, a Center for American Progress study led by Harry Holzer of Georgetown University and the Urban Institute found that child poverty costs the U.S. economy about 4 percent of GDP per year in lost adult productivity and wages, increased crime, and higher health expenditures.<sup>89</sup>

Among the explicitly antipoverty policies in this report are calls to increase the minimum wage, invest in education, improve employment and training programs, expand paid sick days, continue emergency-unemployment compensation, expand high-quality child care, and support asset building among low- and middle-income Americans.<sup>90</sup>

These policies promote consistent participation in the labor force and make it possible for lower-income families to weather volatile economic cycles that might cause unemployment or reduced hours of work. We also recommend a set of policies that can be especially effective and targeted to significantly reduce the level and impact of poverty on families and the economy. These policies include the following:

- Make permanent the improvements to the earned income tax credit and the child tax credit for low-wage working families passed under the American Recovery and Reinvestment Act. In addition, the earned income tax credit for childless workers should be expanded since currently a single childless adult earning poverty wages is the only group taxed deeper into poverty by our federal tax system. To this end, the amount of the credit for childless workers—and the income level at which it phases out—should be increased significantly. Furthermore, the age at which childless workers can begin to receive the credit should be lowered to 21 from the current eligibility standard of 25.
- Increase participation in the Supplemental Nutrition Assistance Program, or SNAP, to 85 percent of eligible households, from about 75 percent in 2010, by expanding outreach and improving accessibility.
- Expand free school lunches to children in families making less than 185 percent of the federal poverty line (or \$35,317 per year for a family of three<sup>91</sup>) and streamlining the program by eliminating the co-pay required of children in families making between 130 percent and 185 percent of the federal poverty line.
- Raise the monthly Supplemental Security Income for the elderly, blind, and disabled at least to the poverty level.
- Invest in affordable housing by capitalizing the National Housing Trust Fund and expanding the availability of rental subsidies for families facing severe rent burdens.

These policies are particularly important in our effort to make it possible for the safety net to not only catch people but also to help them remain employed or re-enter employment and increase their economic well-being. Taken together with other parts of our economic plan, these policies can move millions of Americans out of poverty, expand the middle class, and propel economic growth.

The Center for American Progress Action Fund’s Half in Ten project is an initiative to cut U.S. poverty in half in 10 years, in partnership with the Coalition on Human Needs and The Leadership Conference on Civil and Human Rights. For a complete analysis of the economic benefits of reducing poverty and poverty-alleviation policies, see the 2012 Half in Ten report, “The Right Choices to Cut Poverty and Restore Shared Prosperity.”<sup>92</sup>



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