What's Behind the Economic Insecurity of American Workers?

The recent release of data from a May 2017 study conducted for the U.S. Bureau of Labor Statistics on the prevalence of nonstandard work arrangements blew up the myth that most American workers would soon be independent contractors and many would be employed in temporary, or gig, jobs. In fact, there has been a slight decline since 2005 in the share of workers whose main job is that of an independent contractor, and just one percent of the workforce holds a gig job. Nine out of ten U.S. workers have a standard employment relationship in their main job. An earlier report by two eminent labor economists found a 50% increase – up from about 10% in 2005 to about 15% in 2015 – in workers with nonstandard work arrangements. But in a paper published in January 2019, the authors walked these findings back, noting that what they thought was a trend toward increasing nonstandard jobs was actually a blip. Their survey had picked up the incomplete recovery from the financial crisis and the fact that many workers were still cobbling together a living any way that they could.

New technologies and the rise of the gig economy provided a convenient – if ultimately incorrect – explanation for low wages and economic insecurity. I argue that a major source of these worker outcomes is the increasing importance of fissuring and financialization. Looking at rising inequality through the lens of these developments provides a coherent rationale for a set of progressive policies that will improve economic outcomes for large numbers of workers that have missed out on a generation of economic growth.

Over the past 40 years, many of the bureaucratic, hierarchical firms that dominated the economy for most of the 20th century have been disassembled. Major corporations now focus on 'core competencies' and outsource a large number of business functions and production activities. They retain control of such core activities as protecting the brand, engaging in R&D, designing products and setting parameters for customer service. But they contract for a wide range of activities that are necessary to actually produce and deliver a product or service. The firms that retain these core activities dominate a network of more vulnerable companies who they contract with in order to actually create and deliver goods and services. Over time, consolidation of dominant firms into a small number of powerful players has been accompanied by fragmentation as these firms contract out activities viewed as 'non-core'. Dominant firms extract much of the profit and rents jointly created by all of the businesses engaged in producing the final output. Vendors, suppliers and contract companies compete for contracts that often go to the lowest bidder. In this race to the bottom, contract companies operate on thin margins, and are unable to secure these contracts if they pay their workers fairly.

In many cases, employees on the payrolls of different contractor firms work side-by-side in fissured workplaces. The security guard in the hospital lobby, the person who took your insurance information in admissions, the person who brings your food, the person who cleans your room, the anesthesiologist who assists your surgeon and the person handling billing may all work for different companies – and none of them are employed by the hospital. A low bid may win the contract, but the company will be operating on a shoestring and workers' wages will be squeezed. Workers in the commercial laundry that washes linens for the hospital are also employed by a company that competes for a contract with the hospital. Even though their worksite is the laundry and not the hospital, their pay is constrained by the contract terms their employer accepts.

The development of the managerial model of the capitalist enterprise – in which shareholders own the company but the managers make the decisions – reached its apogee in the late 1970s with the rise of the diversified conglomerate. But the emergence of conglomerates proved ter-

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minal for the managerial model. Corporate executives lacked the necessary industry expertise to manage radically different businesses. Financial managers became more important in part because financial metrics could be applied across diverse business units, but also because profits fell dramatically in the 1970s. The concept of the capitalist enterprise shifted from one based on production and marketing to one based on maximizing financial returns.

In the 1980s, the balance of power shifted from corporate stakeholders – including workers – to corporate shareholders whose only interest was the returns they received. As with fissuring, the business strategy that companies adopted to maximize shareholder value was to focus on the company's core competencies, outsource non-core functions and eliminate non-core business lines. The increased buying and selling of business units created a perception of the company as little more than a lego set with assets to be bought and sold. Workers ceased being an asset and became an input like any other, whose costs the firm needed to minimize. Labor costs were an impediment to success on the only metric that mattered – maximization of shareholder value.

An extreme version of this can be found in the activities of private equity (PE) firms. PE firms, famously, have no commitment to the long-term sustainability of the companies they buy; their goal is to exit these investments in a few years. The heart of this business model is the 'leveraged buyout' – a deal in which a private equity fund uses capital supplied by pension funds and other investors as a down payment, and buys a company using high levels of debt that the acquired company must repay. To meet this challenge, the acquired company must immediately increase its cash flow, usually by cutting labor costs. Post-buyout, PE firms often add on more debt to pay themselves and their investors a dividend. Or they may sell off real estate and pocket the proceeds. Private equity owners extract millions – funds the companies could have used to increase worker skills or upgrade technology. While PE prefers that companies they own do not go bankrupt, profit from selling the company is the PE firm's second bite of the apple. If the company they have starved of resources goes broke, they've already made their bundle.

There are a number of ways policies can raise workers' living standards while easing economic insecurity. First, there should be a focus on establishing minimum employment standards that benefit all workers, protecting the most vulnerable and creating a level playing field for companies bidding on contracts to supply goods and services. To do this, the government could enact a $15 federal minimum wage indexed to the average wage, increase eligibility for overtime pay and guarantee severance payments for workers laid off through no fault of their own.

Federal programs could be created to share prosperity and expand the social wage. These programs could increase access to healthcare for all U.S. residents, enact a federal paid family and medical leave insurance program for all who work, provide significant relief for student debt and introduce tuition-free college. Additionally, the national commitment to full employment and good jobs should be renewed. This could be accomplished by enacting an infrastructure bill to meet essential needs and address climate change. The Fed could be encouraged to strengthen its guidelines that limit the amount of debt on a company as well as to adopt policies aimed at full employment and price stability. A national commitment should also include a federal jobs guarantee by 2021.

A definition of 'joint employer' should be developed that recognizes the new realities of joint management of workers by dominant firms (e.g., franchisors) and PE firms. Bankruptcy laws should be reformed to move workers from the rear to the head of the line. Similarly, workers' bargaining power should be strengthened. This would involve passing card check legislation and requiring federal chartering of the largest corporations with provision for workers on corporate boards. Finally, policies must address corrupt behavior by corporations that victimizes workers or the public. These and other policy solutions will invest in American workers, strengthening in turn their firms, their families and the economy.