Shaky jobs, sluggish wages: Reasons are at home

By Eduardo Porter
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President Trump hasn't been saving jobs in the last few weeks, focusing his energy (and Twitter feed) on how to close the borders to immigrants instead.

When he gets back to it, he might spend less time on the workers putting together air-conditioning units in Indiana and more — a lot more — on the maids and janitors who clean Trump golf resorts and hotels.

This is not to accuse the president of being hypocritical by skewering companies that move production overseas while, say, selling Trump merchandise made in Bangladesh, or loudly championing the cause of the working man while refusing to recognize the rights of workers at his branded properties.

Rather, it is to argue that by obsessing over how the manufacturing jobs of the 1970s were lost to globalization, Mr. Trump is missing a more critical workplace transformation: the vast outsourcing of many tasks — including running the cafeteria, building maintenance and security — to low-margin, low-wage subcontractors within the United States.

This reorganization of employment is playing a big role in keeping a lid on wages — and in driving income inequality — across a much broader swath of the economy than globalization can account for.

David Weil, who headed the Labor Department's wage and hour division at the end of the Obama administration, calls this process the "fissuring" of the workplace. He traces it to the 1980s, when corporations under pressure to raise quarterly profits started shedding "noncore" tasks.

The trend grew as the spread of information technology made it easier for companies to standardize and monitor the quality of outsourced work. Many employers took to outsourcing to avoid the messy consequences — like unions and workplace regulations — of employing workers directly.

"It's an incredibly important part of the story that we haven't paid attention to," Mr. Weil told me.

"Lead businesses — the firms that continue to directly employ workers who provide the goods and services in the economy recognized by consumers — remain highly profitable and may continue to provide generous pay for their work force," he noted. "The workers whose jobs have been shed to other, subordinate businesses face far more competitive market conditions."

The trend is hard to measure, since subcontracting can take many forms. But it is big. A study last year by Lawrence F. Katz of Harvard and Alan B. Krueger of Princeton, a former chief economic adviser to President Barack Obama, concluded that independent contractors, on-call workers and workers provided by contracting companies or temp agencies accounted altogether for 94 percent of employment growth over the last 10 years.

Nonstandard employment arrangements like these account for nearly one in six jobs today. That is 24 million jobs, nine million more than 10 years ago.

Many of these jobs are poorly paid. A 2008 study by Arindrajit Dube of the University of Massachusetts, Amherst, and Ethan Kaplan, then at the Institute for International Economic Studies at Stockholm University, found that outsourcing imposed a wage penalty of up to 7 percent for janitors and up to 24 percent for security guards.

The Government Accountability Office of Congress concluded that contingent workers in the education field — substitute teachers, adjuncts and the like — earn almost 14 percent less per hour. In retailing they earn 9.4 percent less. Contingent workers across the board are less likely to have health insurance. One-third live in families making less than $20,000 a year. That is three times the share of workers employed in standard full-time jobs.

The rise of outsourced work adds an important twist to the standard understanding of America's growing wage inequality, which is based on the notion that technology has left less-educated workers behind — taking over their routine jobs while opening lucrative new possibilities for the better-educated.

The sorting of workers into different classes of companies will further widen the earnings gap as the rewards of the most profitable among them "increasingly go to a more limited group of highly compensated and more-educated workers and to shareholders," Professor Katz explained.

Manufacturing has gone through this process. General Motors in its heyday employed more than 600,000 workers in the United States, including the engineer, the man sweeping the shop floor and the woman serving coffee. Though the engineer certainly earned much more, the other two could share in G.M.'s success. Norms of fairness, Mr. Weil argues, would limit the wage gap between workers of a single company, giving a boost to those at the bottom.

Outsourcing does away with such considerations. Apple is as successful as G.M. was in its time. But it employs fewer than 70,000 people in the United States. While it keeps engineers, designers and such in house, it doesn't bother with workers not critical to creating seductive new gadgets. Many of those work for Foxconn, in Asia, where the margins are slimmer and the pay is not as good.

The trend is not unique to manufacturing nor to outsourcing overseas, though. It is happening across the nation's brick-and-mortar workplaces and coursing through service industries, the fastest-growing segment of the labor market.

These days the receptionist at the front desk is unlikely to work for the hotel. The truck driver may not work for the delivery company, nor the nurse for the hospital. Jobs in coal mining and hydraulic fracturing — even shipbuilding — have been siphoned off.

Though the gig economy is still small — employing 0.5 percent of contingent workers, according to Professors Katz and Krueger — the technologies powering it are likely to fissure the American workplace further.

This sorting would increase the slice of national income going to shareholders and reduce workers' share. The pattern is consistent with evidence that most of the widening of the nation's earnings inequality can be explained by growing pay gaps between organizations rather than within them.

Over all, Professor Katz estimates, the sorting of workers into high- and low-end employers accounts for a quarter to a third of the increase of wage inequality in the United States since 1980.

So can Mr. Trump do anything about this? When at the Labor Department, Mr. Weil argued that companies that outsource should share liability with subcontractors for wages and working conditions, so they could not simply wash their hands of responsibility.

It's not an easy problem to fix, though. As Mr. Weil puts it, "How do you reattach some of the responsibility to the engine of value of these network business systems?" Companies will continue to seek efficiencies by shunting work into these broader networks. And it would make little sense to adopt policies that forbid this kind of business organization. Encouraging unions, which many scholars

have suggested as a tool to improve wage growth, could well accelerate the splintering.

And yet, there may be a place for incentives to discourage the weakening of labor standards. Some employers might adopt a system like Harvard's parity policy to ensure that those in contract positions like guards or cafeteria workers get the same pay and benefits as comparable university staff members.

Whatever its difficulties, addressing the vast transformation underway in the organization of work seems more relevant than tilting at windmills in hopes of restoring American manufacturing to its 1950s state.