How privatization increases inequality

Section 4: *Race to the bottom for workers*

In the Public Interest • September 2016

Executive summary

Inequality in the United States, which began its most recent rise in the late 1970s, continues to surge in the post–Great Recession era.[1] During similar eras—such as the New Deal—many of the public goods and services we value today were created to deliver widespread prosperity. But the way in which cities, school districts, states, and the federal government deliver things like education, social services, and water profoundly affects the quality and availability of these vital goods and services. In the last few decades, efforts to privatize public goods and services have helped fuel an increasingly unequal society. The report, *How privatization increases inequality*, examines the ways in which the insertion of private interests into the provision of public goods and services hurts poor individuals and families, and people of color.

In the Public Interest's analysis of recent government contracting identifies **five ways in which government privatization disproportionately hurts poor individuals and families**, each of which is explored in greater detail in the report.

This section of the report, *Race to the bottom for workers*, describes how privatization increases income inequality through the decline of contracted workers' wages and benefits. When governments directly provide a service, they often provide living wages and decent benefits to workers. When private companies take control, they often slash wages and benefits in an attempt to cut labor costs, replacing stable, middle class jobs with poverty-level jobs. Reduced worker wages and benefits not only hurt individual workers and their families, but also local economies and the stability of middle and working class communities.

Download the full report at **bit.ly/PrivatizationInequality**.

Introduction

As In the Public Interest detailed in the 2014 report, *Race to the Bottom*, a well-documented way that privatization contributes to poverty and increasing income inequality is through the decline of workers' wages and benefits. Our research illustrated an alarming dynamic where outsourcing public services sets off a downward spiral in which reduced worker wages and benefits can hurt a local economy and overall stability of middle and working class communities. Governments at all levels have long provided jobs with family-supporting wages and important benefits such as health insurance and sick leave. In doing so, governments have historically created intentional "ladders of opportunity" to allow workers and their families to reach the middle class.[2] However, as governments have increasingly relied on the use of private contractors, we see a reversal of this trend. Many contracted positions offer lower wages, reduced benefits, and little or no retirement security. Too many times, these positions turn into poverty-level jobs because companies reduce labor costs to pad their own bottom line. In effect, governments are inadvertently contributing to the growing poverty and increasing inequality plaguing American society as tax dollars that once provided middle class jobs are siphoned off to corporate coffers.

This outsourcing dynamic disproportionately impacts women and African Americans, both of whom are employed by the public sector at high rates.[3] The public sector is the third largest employer of working women, regardless of race. In January 2011, women comprised 56.8% of all government workers; 43% of federal workers, 51.7% of state workers, and 61.4% of local government employees.[4] The public sector affords women greater opportunity to move from lower-income entry level work, such as janitorial services, to higher positions within a governmental entity, when compared to job mobility within a contractor company.[5] In general, workers in the public sector are better able to upwardly progress within a job classification than workers employed by private contractors.[6]

For African Americans, the public sector is the most important source of employment, as approximately one in five black workers hold jobs in government. African Americans are 30% more likely than non-African Americans to work in the public sector.[7] Public sector jobs—with strong equal opportunity requirements, higher rates of unionization, and more enforcement of anti-discrimination laws than those in the private sector—have been an important ladder for African Americans to move into the middle class.[8] Recent research reveals that African American public sector workers earn 25% more than other African American workers, and for both men and women, the median wages earned by African America employees is significantly higher in the public sector than in other industries.[9] Due to their prevalence in public sector jobs, African American workers are more likely to be affected when jobs are outsourced to companies that pay reduced wages and benefits, potentially losing their once stable footing in the American middle class, which can have long lasting impacts for future generations.

The loss of public sector employment can also have devastating effects on African Americans' economic conditions during retirement. Public pensions are an important source of retirement income for African Americans. Recent research revealed that for African American retirees and other retirees of color, "a public pension is literally the difference between a secure retirement and one spent in or near poverty."[10] In 2014, less than 3% of African American retirees with public pensions lived below the poverty line, but 21.8% of African American retirees without public pensions did.[11] African American retirees were nearly twice as reliant on public pensions to provide a secure retirement as the retiree population as a whole.[12] When jobs are outsourced to private companies, not only do workers typically experience a reduction in current living standards as their wages plummet, but with the loss of important retirement benefits, quality of life in later years is also severely compromised. This double loss is especially felt by workers of color as stable public sector employment opportunities disappear.

Additionally, when government contractors pay low wages and provide minimal benefits, the costs of filling in income gaps are shifted to taxpayers through increased use of public assistance programs. In many cases, contractor pay is so low that employees must turn to public social safety net programs, such as SNAP, WIC, TANF, the Earned Income Tax Credit (EITC), and other public assistance programs for which low-income Americans qualify, to make ends meet. When contractors fail to provide health insurance for their employees, or if buying into the employer's plan is too expensive, workers and their families are forced to enroll in public programs, such as Medicaid or the Children's Health Insurance Program (CHIP), or simply rely on emergency room visits that are very costly for taxpayers.

This spending amounts to a hidden cost to the government and a subsidy to the contractor that is rarely factored into the cost analysis when deciding whether to outsource a particular public service. By slashing labor costs, a company may be able to show a governmental entity cost savings through outsourcing on paper. However, low wages often mean that the number of Americans on public assistance rolls increases and these supplemental income and health care costs, instead of being the private contractor's responsibility, are merely shifted onto other parts of the government budget.

Lastly, reducing wages and benefits has real consequences for local economies. Research shows how declines in wages means workers have less money to spend in their communities, which directly affects local businesses. Lower wages mean that workers spend less in local retail, restaurants, and other establishments. Lower wages also mean that local and state governments collect less in sales, income, property, and other types of taxes.[13] In short, less money flows into the local economy and more money is routed to for-profit corporations and their CEOs and shareholders.

Federal concessionaire workers

This issue is gaining increased attention regarding workers with companies that contract with the federal government. A National Employment Law Project (NELP) survey of federal contract workers found that 74% of workers earned under $10 per hour, almost 60% received no job benefits, and 36% were forced to rely on public assistance to make ends meet.[14] For example, one worker interviewed for the survey who worked for a contractor that staffs the National Zoo in Washington, DC, reported that her job as a cashier paid $8.25 and provided no health insurance benefits, sick days, or vacation days. She shared an apartment with her sister, who worked full-time, and her sister's kids. During the slower winter season, she and her co-workers were laid off with no notice, adding unpredictability and instability to an already stressful job.

Another worker interviewed for the survey relayed her story about how after working as a janitor for 19 years for a contractor at Washington, DC's, Union Station, she was injured on the job. She was working on a ladder and fell face down and knocked unconscious. She was taken to the emergency room, but had to stay home for a week to recover from the injuries. Her employer provided no paid sick leave, meaning that she earned no wages during this recovery time, severely impacting her ability to stay financially afloat. Furthermore, the publicly funded health care program she relied on said the hospital bill should be the employer's responsibility because the accident happened on the job. Until the contractor pays its share, she has been suspended from health insurance coverage. With an ongoing serious heart condition, no health insurance, and no paid sick time, she worries about her future. As she explains, "I have worked hard for 19 years at Union Station. Every day I come here and I work to make it a nice place for the visitors. But still, I make barely more than minimum wage and receive no benefits."[15]

The attention that this issue has received has culminated in the signing of two executive orders by President Barack Obama that attempt to raise labor standards for workers employed by federal contractors. The first was signed on February 12, 2014, and raised to minimum wage from $7.25 to $10.10 for all workers on federal construction and services contracts.[16] As a basis for the executive action, the order stated:

"Raising the pay of low-wage workers increases their morale and the productivity and quality of their work, lowers turnover and its accompanying costs, and reduces supervisory costs. These savings and quality improvements will lead to improved economy and efficiency in Government procurement."[17]

On September 7, 2015, President Obama signed a second executive order requiring federal contractors to provide their employees with up to seven days of paid sick leave annually, including paid leave for family care.[18] This order is set to go into effect on January 1, 2017, and will provide a minimum level of paid sick leave to an estimated 828,000 workers. Currently, almost 437,000 of these workers receive no paid sick leave.[19]

Transit

D**espite some modest gains** at the federal level, contractor wage and benefits issues still persist in local government contracts. The Washington Metropolitan Area Transit Authority (WMATA) offers MetroAccess, a shared-ride, door-to-door, paratransit service for people with disabilities.[20] In an effort to cut costs, WMATA contracts with private companies to provide this service. Cost cutting, specifically cutting labor costs, is a widely used argument for privatization among paratransit programs. A 2013 Government Accountability Office (GAO) survey of 200 agencies that used privatized paratransit services found that almost three quarters of respondents used private contractors to reduce costs; by far the most cited reason for privatization.[21] WMATA explained to the GAO that these reduced costs are largely derived from lower labor costs.[22] While this makes the paratransit budget appear slimmer, these costs spill over into other parts of the public budget, carrying serious consequences for drivers working for contractors.

Currently, WMATA contracts with multiple contractors to provide MetroAccess service. Three contractors provide service delivery, including two multinational companies, First Transit and Veolia Transportation, and one local company, Diamond Transportation.[23] Robbie Werth, president of Diamond Transportation, describes how he's unable to provide better wages to his workers: "We're in a competitive bidding situation. If I were to pay $20 an hour, and TransDev [another contractor] were to do $13.15 an hour… I wouldn't be operating this contract. If you bid too high on wages, which is a substantial part of the total budget, you're not going to get the work." However, since these cost savings are primarily realized through worker wage and benefit reductions, companies must offer lower wages and benefits to stay competitive and secure a contract. This creates a race to the bottom for worker pay and benefits and ultimately results in high turnover rates. The Federal Transit Administration (FTA) has documented turnover rates in excess of 80% per year for contractors servicing some of the nation's largest paratransit programs.[24] The high turnover rates can have severe negative impacts on both the quality of the service and the costs of the service to the public entity over time.[25]

The impacts of this race to the bottom can be seen through the experience of Karen Reed, who works as a MetroAccess driver for First Transit. In January 2015, she spoke to DC Mayor Muriel Bowser about her working conditions. She explained that she works 12-hour shifts driving a paratransit van and shows up for work every day. However, she estimates that she only took home $26,000 that previous year, far below what is needed to secure housing in the Washington, DC, area. She and her daughter were homeless for three months in that previous year, and she used food assistance (SNAP) and Medicaid to help make ends meet.[26] She said to the mayor, "You are going to pay me either way, in my public benefits check or in my paycheck. I enjoy working for a living. Stop insulting me. Pay me in just one check: my paycheck."

Drivers for Washington, DC's Circulator bus system, which is also contracted out to First Transit, have also struggled with subpar wages and benefits. High turnover has plagued the system as Circulator drivers learned that drivers with the publicly run Metrobus system with the same level of experience earn significantly more, prompting concerns that the Circulator serves as a training ground for drivers before they move on for higher wages. Recently, Circulator drivers started at $16.56 per hour, and after a decade could reach the top pay of $23.47 per hour. By contrast, Metrobus drivers are offered starting wages of $19 per hour with a top pay of $34 per hour, even though drivers for both systems are providing a comparable service on many of the same routes.[27] This disparity means that a driver with seven years of experience would make more than $10 less working for the privatized Circulator system compared to the publicly run Metrobus system.[28] Given the cost of living in the Washington, DC, area, many Circulator drivers cannot afford basic living expenses, including rent.

The Amalgamated Transit Union (ATU) Local 1764 has engaged in a campaign to bring wage parity to Circulator drivers working for First Transit. In May 2016, the union was successful in negotiating a three-year contract that would increase the top wages from the current $23.47 hourly rate to $31.69 by the end of the contract. The contract also specifies that First Transit is to triple its contribution to worker retirement savings 401(k) plans.[29] It is worth noting that the collective bargaining agreement also ensures that drivers will not have to drive buses that are in disrepair or poor operating condition. This is an important provision, as recent audits of the Circulator system have revealed that First Transit has neglected important maintenance on buses, leading to safety concerns for both drivers and passengers.[30]

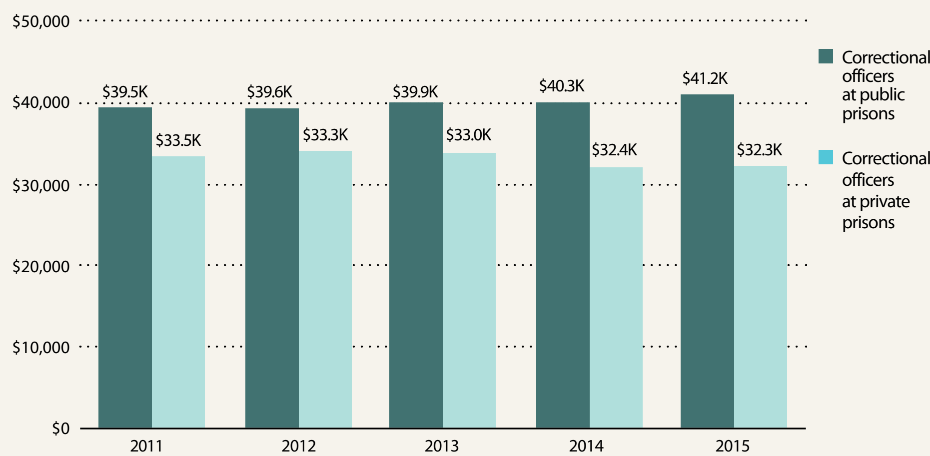
Private Corrections

This diversion of money from workers to for-profit corporations and their executives can clearly be seen in the corrections industry. Recent data from the U.S. Bureau of Labor Statistics (BLS) shows a disparity in wages between correctional officers working in public and private facilities, which contributes to inequality in the private prison industry, an industry that collects hundreds of millions of dollars in profits from taxpayers each year.[31] The median salary for correctional officers at private prisons and jails in 2015 was $32,290.[32] The data reveals that one in four private correctional officers make less than $26,091, putting them near or below the poverty line for a family of four.[33] Some private facilities pay even less. For example, in 2014 at the Winn Correctional Facility in Winnfield, Louisiana, Corrections Corporation of America (CCA), the nation's second largest private prison company, paid non-ranking correctional officers $9 an hour, or an annualized salary of $18,000 per year, no matter how long they had worked at the prison.[34] This amount is almost $6,000 less than the poverty threshold for a family of four for that year.[35]

When compared with correctional officers in publicly run prisons, correctional officers working for private prison companies earn substantially less—the median salary for correctional officers employed at public facilities in 2015 was $41,160,[36] almost $9,000 greater than their private sector counterparts in 2015.

Meanwhile, Damon Hininger, CCA's Chief Executive Officer (CEO), made $882,807 in salary in 2015, as well as $2,522,510 in other forms of compensation, such as stock awards and bonuses.[37] George Zoley, the CEO of the country's largest private prison corporation, GEO Group, made $1,000,000 in salary and an additional $5,608,464 in other forms of compensation.[38]

Pay Ratios: Correctional officers at public prisons to correctional officers at private prisons..



Note: Dollar values show the median annual salary for correctional offices working for private companies and correctional officers working for federal, state, and local governments.

Source: Occupational Employment Statistics, Bureau of Labor Statistics.

Not only do reductions in wages and benefits propel correctional officers in poverty, low wages in private prisons can also have significant impact on employee turnover, greatly affecting the quality of prison operations. In 2008, the Texas Senate Criminal Justice Committee reported a 90% turnover rate at Texas's private prisons, compared to a 24% turnover rate at their public prisons.[39] The high turnover rate in private prisons was largely due to private prison companies' failure to invest in quality staff and ongoing training. Data from 2008 revealed that the lowest paid public prison correctional officer in Texas made almost $2,000 more annually than the highest paid private prison correctional officer.[40] Academic research using 2004 data found that private prison turnover among correctional officers was 43%, while turnover in public prisons was only 15%. Turnover in private prisons was linked to lower staff pay and less training. As the study explained, "Pay, training, and turnover may all contribute to the higher levels of violence seen in the private sector [prisons]."[41]

Correctional officers aren't the only workers in the criminal justice system impacted by the wage-cutting dynamic of privatization. Many services within prisons and jails are outsourced, including food service, health care, commissary, and more. In an effort to provide these services at a low cost and maximize company revenues, cutting corners in service provision has become routine. In the Public Interest has published two reports that closely examine the negative and sometimes deadly consequences of cost cutting strategies. For more information, see *Cutting Corners: How Government Contractors Harm the Public in Pursuit of Profit* and *Cutting Corners in America's Criminal Justice System*.

The severity of wage cuts and their impacts on prison services are clearly illustrated in Michigan's recently cancelled statewide contract with Aramark. In late 2013, Michigan Department of Corrections (MDOC) approved a $145 million contract with the company for the provision of food service for the state's 43,000 prisoners.[42]

Upon taking over food services from the state, Aramark immediately lowered its operating costs by cutting kitchen worker compensation in half to about $11 per hour[43] and ending some safety trainings.[44] State employees had been providing these services at a maximum hourly rate of $22.18[45] and provided employment benefits.[46] Consequently, many of the new, less-qualified, lowly compensated employees violated security rules, broke the law, and acted in ways counter to prisoner rehabilitation. They couriered in contraband—such as marijuana—and engaged in intimate relations with prisoners, including exchanging love letters, kissing, and fellatio.[47] According to a letter from MDOC to Aramark in February 2014, "Aramark employees are inadequately trained" and "have a lack of tool control, specifically knives and a whisk, which is very dangerous as these items have come up missing."[48] In total, from March 2014 to October 2014, MDOC cited Aramark for 485 instances of jeopardizing prisoner safety and facility security, according to an analysis by the nonprofit organization Progress Michigan.[49]

In May 2015, an Aramark supervisor was indicted for attempting to hire a prisoner to arrange an assault on another prisoner.[50] In the first seven months of Aramark's contract, 74 employees were banned from Michigan's prisons.[51] By comparison, in the five years before Aramark's contract—when public employees provided food services for the prisons—about five workers were banned.[52]

The state fined the company $98,000 in March 2014 and $200,000 in August for contract violations.[53] In July 2015, the state terminated Aramark's contract.[54]

University of California contracted workforce

The University of California system (UC) consists of ten university campuses and five medical centers across the state of California. It is the third largest employer in the state. However, even as the number of students attending UC schools and the number of facilities has grown in recent years, the number of employees working directly for the UC system has decreased, and the public higher education system has increased its reliance on private contractors.[55] Recent research estimates that UC currently uses at least 45 private contractors employing thousands of workers in a variety of roles, including custodians, security officers, parking attendants, and food service workers.[56] Even though many of these contracted workers perform the same work as employees directly employed by UC, their wages are as much as 53% less than UC career employees in the same position, they receive few if any benefits, and most have no protections on the job.[57] This dynamic disproportionately affects communities of color as 65% of low-wage contractor employees in California are immigrants and people of color.[58]

For example, in a contract between UC San Francisco (UCSF) and the custodial company, Impec Group, Inc., a custodian with three years on the job would earn $11.05 per hour, but that same custodian would earn $17.01 per hour working directly for the university. The UCSF-employed custodian would earn additional pay for working the evening or night shifts, while the Impec-employed custodian would not. In terms of benefits, the UCSF-employed custodian would receive family health coverage, a defined benefit retirement plan, 12 sick days per year, 13 paid annual holidays, and 15 paid vacation days per year. In contrast, the custodian employed by the contractor would receive no employer-sponsored healthcare, no retirement benefits, no paid holidays, no paid vacations days, and only three paid sick days per year due to a San Francisco ordinance requiring employers to pay a minimum number of sick days.[59]

Poverty-level jobs mean that workers are forced to forgo many of life's basic necessities. For example, Armando is a worker who works full-time for a UC contractor, but works alongside UC career employees performing similar jobs, and is even supervised by a manager who is a direct UC employee. His wages do not leave enough for his own health insurance premiums and he consequently goes without coverage, while his low pay qualifies his children for health coverage under the state's Medicaid program. He reports having to frequently choose between making his car payments and paying his water and electricity bills. But, as he explains, "the toughest thing I've had to do is tell my kids they can't play sports because we can't afford it. We just don't have the money."[60]

Like Armando, many contractor workers must rely on public assistance programs to make ends meet. As discussed above, the costs of these programs that taxpayers must ultimately bear are essentially subsidies for companies that inadequately compensate their employees. Researchers at UC Berkeley estimated that in 2010, each employee working for contractors required $1,743 in public assistance each year to supplement poverty-level wages.[61]

In 2015, California Senate Bill 376 was introduced by Senator Ricardo Lara and sought to improve UC contracting practices and bring contractor worker compensation up to the level of UC system-employed workers in the same positions.[62] While this bill passed the California State Assembly, the bill was ultimately vetoed by the governor.[63] However, a few months earlier, the UC System had implemented a minimum wage policy that requires both direct employees and employees working for contractors to receive at least $15 per hour by October 2017.[64]

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In the Public Interest would like to thank Jennifer Zelnick, Leigh Dingerson, and Michael McCall-Delgado for their review of this report. We'd also like to thank Terry Lutz for designing this report.