Mark R. Warner

US Senator from the Commonwealth of **Virginia**

In 2015, witnessing a stark rise in the number of Americans working in the "on-demand," "sharing" or "gig" economy, Senator Warner was perhaps one of the first lawmakers in the country to recognize both the opportunities and challenges accompanying this growing workforce. As a former businessman, he could see that gig work offered tremendous flexibility to work when and where a worker wanted to, but he could also see that, without a safety net to fall back on, this type of work was exacerbating economic insecurity. Embracing the issue as a bipartisan priority, Warner – a former governor of Virginia – partnered with former Indiana Governor Mitch Daniels in calling for policymakers at the state level to embrace innovation and experimentation to address this new future of work, and helped launch the Future of Work Initiative at the Aspen Institute.

In the years since, Warner has been recognized as one of the most forward-thinking and innovative leaders in this space. He has been called upon to address Democratic and Republican governors, mayors, state legislators, economists, think tanks, unions, and business leaders on the best ways to develop policy solutions to the problems facing workers in this new 21st century economy.

Warner understands that trends in the platform economy are part of a larger, more interconnected, and far reaching set of imbalances in the economy than commonly realized. Gig work done through online platforms may be new, but it merely shines a spotlight into a problem that has always existed for the 10 percent of workers (according to estimates) in the labor market that work outside of a traditional full-time employment model. Domestic work, agricultural work, contract work, freelance work and others are all forms of contingent or independent work in the economy that have always been excluded from the American social safety net.

What's more, over the past several decades, changes in market demand, employer-employee relations, and a corporate focus on shareholder value maximization over long-term investments has upended the more traditional aspects of the American social contract that full-time workers have come to expect. By viewing workers as a cost instead of an asset, employers are no longer investing in worker training at the levels they once did. Low wage work that used to be completed by in-house employees is increasingly being subcontracted out. Instead of investing in technology that could augment what workers are able to accomplish, businesses seem to be more concerned with investing in technology that replaces workers.

Senator Warner concluded that we need a comprehensive reform of the foundations of modern American capitalism. We need to recreate our worker benefits system so that benefits can be portable and accrue over the course of a worker's lifetime regardless of the type of work they do. We need to reshape our tax, accounting, and corporate disclosure system so that workers are no longer treated as a cost, but instead are considered an asset and an investment in our society. And, we need to provide workers with the tools, resources, and access to education and training they need to succeed in a 21st century economy.

In a three-part paper, Warner will attempt to propose a way forward to remake American capitalism to be more inclusive, worker-focused, and resilient to future economic shocks.

The first section, released today, lays out minimum steps that need to be taken to work toward reforming an inadequate patchwork system of worker benefits in the United States. Workers should have ownership over their benefits – like unemployment insurance, paid leave, worker's compensation, healthcare, and others – that are portable and can be taken from job to job. Benefits should accrue over the course of an individual's lifetime regardless of their occupation, worker classification status, or time in a given profession. This first section includes a proposal modeled after the Senator's bipartisan Emergency Portable Benefits for Independent Workers Act to create an innovation fund and establish a two-year national evaluation for how a system of portable benefits could work in the American economy.

The second section – forthcoming in a few weeks – will focus on the need to invest in society's most valuable asset: human beings. We used to operate with the understanding that an employer would invest in workers over the course of their lifetimes. With employers investing less and less in worker training over time, we need to rethink the kinds of investments we make as a society. Part II will include proposals for reforming our worker education system as well as long-overdue changes to make sure that workers are considered an investment in the same way that we currently consider investments in research and development.

The third section – to be released in the coming months – will focus on the need to reform all of the built-in incentives by which businesses operate in the economy. Recent trends in have demonstrated the extent to which businesses have jettisoned long-term and worker-focused investments in favor of short-term returns. Part III will include proposals to reform our corporate governance system to incentivize long-term investment and prioritize disclosures to prospective investors about how and where a company is spending on its greatest asset – its workforce.

- December 3, 2020

Toward a Resilient 21st Century American Capitalism: Investing in Workers and Promoting Inclusive Growth

COVID-19 has taken an unprecedented toll on our society. As of this writing, more Americans have died as a result of COVID-19 than those who perished fighting in World War I, the Korean War, and the Vietnam War combined. Tens of millions of Americans are out of work and have lost their health insurance. Black, Latino, and low-income families have been affected disproportionately. We have seen the worst economic contraction in over 70 years of recording our national economic output. Right now, there are more than twice the number of Americans participating in the combined emergency unemployment programs Congress created in March as there are in the regular state unemployment system.[1]

There is hope that a large percentage of jobs lost will return swiftly when we are able to get the virus under control through aggressive public health and safety measures as well as vaccine distribution. But, a significant percentage of those jobs may not return and, as a result, we may see sustained hardship in the American economy. We are already seeing a rise in permanent job loss and it is likely to worsen as the crisis continues.

In order to surpass this and work toward a more resilient economy going into the 21st century, we must shift the focus of modern American capitalism. A long-term focused, more resilient form of capitalism needs to tackle the hardships and vulnerabilities brought about by COVID-19 and the longstanding economic inequality that was present before the onset of the pandemic. Now, more than ever, we need to prepare workers for a 21st century future by investing in them and returning to a form of American capitalism that prioritizes all stakeholders, including workers, in long-term growth.

We used to get this right. In the second half of the 20th century, America's entrepreneurial free enterprise system lifted millions of families out of poverty and created the world's strongest middle class. This period of economic growth following World War II is often seen as the golden age of American capitalism.

The system never operated perfectly; the history of American capitalism is filled with excesses, systemic racism, and unnecessary barriers. These challenges are reflected in the struggles of organized labor, mass civil rights protests, and other reform movements which seek to rectify structures that excluded, discriminated against, mistreated, or under-paid American workers. These mass movements that continue today have made our economy stronger and more inclusive.

[1] Bureau of Labor Statistics, U.S. Department of Labor. November 19, 2020. "News Release: Unemployment Insurance Weekly Claims."

Still, this was an era of broader shared economic growth compared to today. The United States enjoyed the strongest economic growth rate of the 20th century — with a significant portion of that growth driven by personal consumption spending,[2] made possible by rising incomes for the average American. Substantial increases in corporate profits and industrial productivity took place in tandem with substantial wage growth, increased savings, and improved standards of living.[3] This rising tide did not rectify structural inequalities, such as the racial wealth gap, which persists to this day. But during this time period, each generation of Americans could generally expect greater opportunity and prosperity than previous generations.

It's difficult to pinpoint the precise moment when this era ended. But, American capitalism no longer holds the promise it once did. An individual born in 1940 had a 92% chance of having a higher standard of living than their parents.[4] For someone born in 1984, those chances are now just 50-50.[5] For those who are living through the Great Recession followed ten years later by a global pandemic, it is not difficult to imagine that their outcomes will be even worse.

Even before the onset of the pandemic, the United States had some of the highest levels of inequality and lowest rates of economic mobility among all wealthy democracies.[6] The probability of advancing from the bottom fifth of the income distribution to the top fifth is nearly twice as high in Canada today as it is in the United States.[7] What's more, many workers are caught in a low-wage trap, even when they attempt to switch jobs. A Brookings report found that middle class workers who switch occupations are more likely to transition downward rather than upward.[8]

In the years following the 2008 financial crisis, this diminishing of economic mobility in America has corresponded to a concentration of economic opportunity in a handful of communities. Between 2005 and 2015, the U.S. added more than 150,000 net new businesses and 5.4 million net new jobs.[9]

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[2] Bunker, Nick. 2014. "A Post War History of U.S. Economic Growth." Washington Center for Equitable Growth.

[3] Goodwin, Doris K. 2001. "The Way We Won: America's Economic Breakthrough During World War II." American Prospect.

[4] Chetty, R. et al (2017). The fading American dream: Trends in absolute income mobility since 1940. Science 356(6336): 398-406.

[5] Ibid

[6] Ibid

[7] Chetty, Raj, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez. 2014. "Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States." The Quarterly Journal of Economics, 129 (4): 1553–623

[8] Escobari, Marcela, Ian Seyal, and Michael Meaney. 2019. "Realism about Reskilling." Brookings Workforce of the Future Initiative. https://www.brookings.edu/wp-content/uploads/2019/11/Realism-About-Reskilling-Final-Report.pdf

[9] Kessler, Jim. June 28, 2018. "How the Concentration of Opportunity Elected Trump." Third Way.

But, behind the averages, researchers found that more than two-thirds of American counties lost both businesses and jobs, while only one third of counties drove the net gain.[10] Put in even starker terms, 20 counties alone generated half of the country's new business establishments between 2010 and 2014.[11] If nothing changes following the end of the COVID-19 pandemic and opportunities continue to concentrate in highly populated areas, the promise of a robust middle class life will be out of reach for many Americans.

What happened?

Since the end of the post-World War II boom that began the transition from an industrial to service economy, the country has undergone enormous, fundamental changes in technology, automation, outsourcing, globalization, and in financial markets.

These changes have shaken the social contract that served as the foundation for post-WWII American capitalism. That social contract held that if you worked hard and played by the rules, you would have the opportunity to earn a good life. Through a combination of public education and employer-sponsored training, you could learn a skill, and you would be able to find a job that could support a family for a lifetime. Together, workers, businesses, labor, and the federal government created a social insurance system that provided a safety net in case of hard times, and the ability to retire with dignity after a career of hard work.

In the 21st century, we've seen a breakdown in this social contract. Workers that historically participated in the formal labor market at high rates – particularly middle aged men – are no longer staying at a single employer for their lifetime.[12,13] With the onset of COVID-19 creating a childcare crisis in America, hundreds of thousands of Americans – largely women – are exiting the labor market.[14] An increasing number of workers are being contracted out to subcontractors, leading to lower pay, fewer benefits, and a ceiling on opportunities for upward mobility.

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10 Ibid

11 Economic Innovation Group. 2016. "The New Map of Economic Growth and Recovery."

12 Comparing middle-aged men between 1983 and 2016, ages 45-54, median job tenure has significantly decreased. Historically, however, women's increased rate of participation in the labor force has kept overall job tenure at similar levels in that same time period.

13 The Economist. 2017. "Millennial Americans are still company men and women." Retrieved: https://www.economist.com/graphic-detail/2017/10/24/millennial-americans-are-still-company-men-and-women

14 Connley, Courtney. October 2, 2020. "More than 860,000 women dropped out of the labor force in September, according to new report." CNBC. Retrieved:
https://www.cnbc.com/2020/10/02/865000-women-dropped-out-of-the-labor-force-in-september-2020.html

Moreover, an additional 16 million workers directly take on risk by participating in the labor force in alternative work arrangements without access to any kind of worker safety net.[15] This piecemeal benefits system has made our society more vulnerable in the midst of a global public health crisis and is actively undermining a broader social safety net largely tied to traditional lifetime employment.

Even before COVID-19, there were record levels of inequality in America[16] largely resulting from gains among the very wealthiest Americans.[17] Now, without changes and a concerted effort to invest in workers, we can expect those levels of inequality to be exacerbated. We know, for example, that in an economy increasingly driven by knowledge and technological advancement, the difference between the haves and have-nots can be measured in part by educational attainment. Since March, knowledge and technology workers have been quarantining from home, while essential workers have been at the front lines of the crisis without the option to work from home.

Today, roughly two-thirds of America's income inequality is explained by the skewed education wage premium.[18] Between 1979 and 2012, the earnings gap between college and high school graduates more than doubled, as real earnings rose for college-educated workers and fell for those with a high school diploma or below.[19;20] In particular, researchers find that there's been a hollowing out of medium pay occupations for those with some college and below and that this phenomenon is particularly acute for women and people of color, who face an earnings gap that persists despite education level.[21]

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15 "Contingent and Alternative Employment Arrangements Summary," U.S. Bureau of Labor Statistics, June 7, 2018, accessed October 2018, https://www.bls.gov/news.release/conemp.nr0.htm.

16 Telford, Taylor. September 26, 2019. "Income inequality in America is the highest it's been since Census Bureau started tracking it, data shows." Washington Post.

17 EPI analysis of Current Population Survey Annual Social and Economic Supplement Historical Income Tables (Tables F-1 and F-5). Retrieved: http://www.stateofworkingamerica.org/index.html%3Fp=31276.html

18 Autor, David H. "Skills, Education, and the Rise of Earnings Inequality Among the 'Other 99 Percent.'" Science 344, no. 6186 (May 22, 2014): 843–851.

19 Ibid

20 With the acknowledgment that between 1995 and 2013, growth of the college premium slowed substantially (to 0.38 from 1.08 per year). https://www.epi.org/publication/raising-americas-pay/

21 Autor, David H. 2020. "The Faltering Escalator of Urban Opportunity." MIT Workforce of the Future Research Brief. Retrieved: https://workofthefuture.mit.edu/wp-content/uploads/2020/09/2020-Research-Brief-Autor.pdf

Meanwhile, college educated workers are finding that the rising costs of higher education have decreased the premium on a degree in terms of lifetime wealth compared to previous generations.[22]

For those on the losing end of this equation, economic inequality hits home in the form of extreme economic insecurity, as we have seen in stark terms in the middle of a pandemic. Before the crisis, the Federal Reserve Board had said nearly 40% of Americans would experience a financial hardship to cover an unexpected $400 expense.[23;24] Today, we know that in the middle of a crisis, 40% of households making less than $40,000 lost their employment in March[25] and now tens of millions are on unemployment. Since May, roughly 8 million Americans have slipped into poverty.[26] One in six adults with children currently report that their household did not have enough to eat in the last seven days.[27] For Black and Latino households, that figure is roughly one in five.[28] Still worse, nearly 30% of households with children are not caught up with their rent payments.[29]

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22 William R Emmons, Ana H Kent, and Lowell R Ricketts, "Is College Still Worth It? The New Calculus of Falling Returns" (St. Louis, Missouri: Federal Reserve Bank of St. Louis, January 7, 2019), https://www.stlouisfed.org/~/media/files/pdfs/hfs/is-college-worth-it/ emmons_kent_ricketts_college_still_worth_it.pdf?la=en

23 To pay for an unexpected $400 expense, 27% would either need to carry a credit card balance, borrow from friends and family, sell something, or take out a loan. Another 12% would not be able to pay for the expense at all.

24 Federal Reserve Board. May 2019. "Report on the Economic Well-Being of U.S. Households in 2018." Retrieved: https://www.federalreserve.gov/consumerscommunities/-files/2018-report-economic-well-being-us-households-201905.pdf

25 Iacurci, Greg. May 14, 2020. "40% of low-income Americans lost their jobs due to the pandemic." CNBC. Retrieved: https://www.cnbc.com/2020/05/14/40percent-of-low-income-americans-lost-their-jobs-in-march-according-to-fed.html

26 DeParle, Jason. October 15, 2020. "8 Million Have Slipped Into Poverty Since May as Federal Aid Has Dried Up." The New York Times. Retrieved: https://www.nytimes.com/2020/10/15/us/politics/federal-aid-poverty-levels.html

27 Center on Budget and Policy Priorities. November 20, 2020. "Tracking the COVID-19 Recession's Effects on Food, Housing, and Employment Hardships." Retrieved: https://www.cbpp.org/sites/default/files/atoms/files/8-13-20pov.pdf

28 Ibid

29 Ibid

Many of these structural changes and vulnerabilities have been compounded by changes in corporate behavior. Corporate America has adopted a nearly singular focus on increasing shareholder profit on an ever shorter timeframe.[30] This sea change has come not only at the expense of workers and other stakeholders, but in many cases at the expense of long-term investment.[31] Economists have noted that as companies became more focused on the bottom line, they faced pressure to outsource non-core functions and their supply chains. This development has hit low-wage workers such as janitorial or cafeteria workers particularly hard, with many of these workers now working as subcontractors without the same benefits and career opportunities that traditional lower-wage corporate employees enjoyed.[32]

As a consequence, our economic system under-invests in workers, limits opportunities for economic advancement, and provides access to America's once robust social safety to only a subset of the economy. The result is that modern American capitalism is not working for enough Americans.

What happened?

American capitalism's 20th century success was realized largely through the modern corporation, which, at its core, is an agreement between investors, workers, management, and a government entity authorizing the agreement. The corporation is not a static arrangement. Through choices large and small, policymakers have shaped the body of laws and regulations governing corporations to establish incentives that reward or penalize certain company and investor behavior.

This is the lens through which this policy series approaches the task of reforming American capitalism and remedying the fragility and concentration of opportunity in the United States. Through three component parts, starting with reforming our benefits system, the following sections will argue that a new set of policy changes – both large, systemic reforms, as well as incremental, technical fixes – are necessary to realign the incentive structure of American capitalism towards the shared prosperity once enjoyed by American workers and corporations.

These proposals are not a complete set of policies to grow, build, and expand the American economy. They are not a substitute for necessary investments in our education system, healthcare system, poverty-reduction programs, child care programs, or infrastructure — particularly nationwide broadband — nor are they sufficient to remedy deep structural inequalities like the gender pay gap or the racial wealth gap. They cannot stave off the growing threat of climate change or remedy inefficiencies flowing from our broken immigration system. The following policies do, however, take direct aim at forces that threaten to exacerbate the challenges facing today's capitalism.

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[30] Graham, John R., Campbell R. Harvey, and Shiva Rajgopal. 2005. "The economic implications of corporate financial reporting." Journal of Accounting and Economic. Vol: 40, Issues 1-3, pp. 3-73.

[31] Bower, Joseph L. and Lynne S. Paine. 2017. "The Error at the Heart of Corporate Leadership." Harvard Business Review, May-June 2017 issue.

[32] Appelbaum, Eileen. 2017. "Domestic Outsourcing, Rent Seeking, and Increasing Inequality." Review of Political Economics. Vol. 49(4) 513-528.

This solution set is focused on the mechanics of our free enterprise system. The goal is to create a more inclusive form of American capitalism and build an economy that serves stakeholders in a post COVID-19 world with the same enthusiasm that our current economy serves shareholders. It is premised on the desire to preserve the benefits of a free enterprise system while shifting incentives to give more Americans a fair shot.

The proposals are organized around three central pillars of reforms: rebuilding the safety net for a changing economy, investing more in workers, and developing a system for a more sustainable form of capitalism. Taken together, these proposals can help the United States build a 21st century economy with inclusive prosperity that lives up to America's promise as the Land of Opportunity.

PART I. REBUILDING THE SOCIAL SAFETY NET FOR A RESILIENT ECONOMY

Benefits for a 21st century economy

Today, the COVID-19 crisis is challenging many assumptions about the nature of work that underlie our social contract.

The American social contract was designed around the needs of 20th century workers. It was an employer-based benefits system shaped around the idea of longevity with a single employer, buttressed with legislation aimed at minimum legal protections for workers. This reflects its origins in the New Deal,[33] as well as the efforts of organized labor to pressure employers to provide better benefits for workers.

The social contract that emerged following World War II was designed for a particular worker: a company worker who would spend their life at a single business. For those working that traditional "lifetime" job – companies would provide healthcare, a guaranteed pension, and other benefits to help Americans grow into the middle class through job advancement and job security.

The benefits of this piecemeal system have not always been felt equally. Reflecting our economy's structural racial and gender inequalities, many occupations were originally excluded from the original social contract. However, for the majority of Americans engaged in full-time, W-2 employment, this informal partnership between business, labor, workers, and the government had presented a reliable path to the American dream.

Even before the onset of COVID-19, market forces were increasingly eroding that social contract, particularly for low-wage and vulnerable workers. Millions of workers are no longer spending their entire adult lives working for one company.[34]

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[33] Katznelson, Ira. 2013. *Fear Itself: The New Deal and the Origins of Our Time*. New York: Liveright.

[34] Bureau of Labor Statistics (2018, September 20). Economic News Release – Employee Tenure Summary. Bureau of Labor Statistics. Retrieved from https://www.bls.gov/news.release/tenure.nr0.htm

The domestic and international outsourcing of workers in non-core business functions to subcontractors has suppressed wages, contributed to skyrocketing income insecurity, and capped opportunities for upward mobility.[35] In 2018, only 62% of American workers were covered by an employer-sponsored health plan and only 22% had access to a defined benefit plan for retirement.[36] Put in stark terms, we're facing a worker benefit polarization problem in the United States. We know, for example, that in the middle of a COVID-19 pandemic that hit the service sector hard, only 44% of service sector workers, 23% of part-time workers, and 37% of workers in the bottom quartile of wages had access to a healthcare plan through their employer.[37] This is in contrast to higher wage earners, who are increasingly accruing additional worker benefits, such as paid sick leave,[38] vacation time,[39] medical benefits,[40] and retirement benefits. [41]

For workers, the nature of their relationship with employers is fracturing. A rising share of American workers are earning income outside of traditional employee-employer relationships.[42] Individuals are increasingly supplementing traditional labor arrangements with alternative work arrangements or engaging in that work as a primary occupation.[43]

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35 Appelbaum, Eileen. 2017. "Domestic Outsourcing, Rent Seeking, and Increasing Inequality." Review of Political Economics. Vol. 49(4) 513-528.

36 Bureau of Labor Statistics. "National Compensation Survey." U.S. Department of Labor.

37 Bureau of Labor Statistics. 2019. "Table 9. Healthcare benefits: Access, participation, and take-up rates, private industry workers, March 2019." Bureau of Labor Statistics Employee Benefits Survey 2019. Retrieved: https://www.bls.gov-/ncs/ebs/benefits/2019/ownership/private/table09a.pdf

38 Bureau of Labor Statistics. 2018. "Higher wage workers more likely than lower wage workers to have paid leave benefits in 2018." TED: The Economics Daily. https://www.bls.gov/opub/ted/2018/higher-wage-work-jers-more-likely-than-lower-wage-workers-to-have-paid-leave-benefits-in-2018.htm

39 Ibid.

40 Bureau of Labor Statistics. 2019. "Lower-wage workers pay more than higher-wage workers for employer-provided medical care benefits." TED: The Economics Daily. https://www.bls.gov/opub/ted/2019/lower-wage-work-ers-pay-more-than-higher-wage-workers-for-employer-provided-medical-care-benefits.htm

41 Bureau of Labor Statistics. 2017. "Higher paid workers more likely to have access to retirement benefits than lower paid workers." TED: The Economics Daily. https://www.bls.gov/opub/ted/2017/higher-paid-work-ers-more-likely-to-have-access-to-retirement-benefits-than-lower-paid-workers.htm

42 Jackson, Emilie, Adam Looney, and Shanthi Ramnath, 2017. "The Rise of Alternative Work Arrangements: Evidence and Implications for Tax Filing and Benefit Coverage." Department of the Treasury, Office of Tax Analysis, Working Paper 114.; Aspen Institute Future of Work Initiative Gig Economy Data Hub. https://www.gigeconomydata.org/

43 Ibid.

For some workers, this is a choice – a direct preference for old and new contingent forms of work, such as freelancing and contract work. For others, the 55% that would prefer more stable employment,[44] it is a necessity due more to needed additional income and limited traditional opportunities.

When Americans engage in alternative work arrangements, they do so without traditional worker benefits and protections. In the middle of a global public health crisis, we have seen how vulnerable this makes our society. Fortunately, Congress recently took a first, if temporary, step towards correcting this gaping hole in our unemployment insurance program through the creation of the Pandemic Unemployment Assistance and the Pandemic Emergency Unemployment Compensation programs. The bipartisan coronavirus relief package Congress passed contained the most dramatic expansion of unemployment insurance in decades, finally extending benefits to millions of independent contractors, the self-employed, part-time workers who've had their hours cut, as well as those that exhaust benefits through the regular unemployment system. This program was a lifeline to workers and a necessary safety net for our economy. Today, the number of jobless claims for the Pandemic Unemployment Assistance and the Pandemic Emergency Unemployment Compensation programs are twice that of the traditional unemployment insurance program.

But, Congress' solution to the current problem is not a permanent fix. When this crisis is over, we will go back to the same labor market vulnerabilities we faced before the onset of the crisis.

Our system of worker benefits needs a dramatic update and reform. Congress created the PUA and PEUC programs with the knowledge that our regular unemployment program is part of a patchwork system of worker benefits, inadequate for covering a nation facing an emergency public health crisis. It cannot be the case that every economic calamity would require an Act of Congress to catch the millions of Americans we fail every day with our current social safety net. While our first priority must be weathering this crisis, our recovery must include structural reforms that guarantee a social safety net to every American, regardless of their worker classification status or the occupation they hold. To do that, we must find a way to ensure access to our entire system of social insurance, including healthcare, unemployment insurance, paid leave, workers' compensation, skills training, and tax-withholding and tax-advantaged retirement savings.

To do this, the federal government must conduct a two-year national bottom-up impact evaluation on social benefit systems that can follow workers at every stage of their life regardless of the type of work they do. Through the funding and rigorous impact evaluation of local innovations, we should be able to uncover the best solutions for modernizing our social safety net so that every hour worked, starting from the very first hour, accrues benefits for the long haul. We should allow employers, unions, non-profit organizations, and local governments to experiment with different benefits models for workers in alternative work arrangements. [45]

[44] Horrigan, Michael. 2017. "Contingent and Alternative Employment Arrangements, May 2017" U.S. Bureau of Labor Statistics. https://apps.bea.gov/fesac/meetings/Horrigan%20Presentation.pdf

[45] Reder, Libby, Shelly Steward, and Natalie Foster. 2019. "Designing Portable Benefits: A Resource Guide for Policymakers." Aspen Institute Future of Work Initiative.

Local leaders are already identifying 21st century solutions to benefits[46] delivery for workers, from Washington state's proposed legislation to establish portable benefits to more established New York City's Black Car Fund[47] to the National Domestic Workers Alliance working with the city of Philadelphia to pass a law establishing portable paid leave for domestic workers.[48] Options for solutions could include mandated contributions, allowing unions to become benefits providers the way they are in the Scandinavian Ghent system, or sectoral arrangements among employers. The point is that the federal government should provide local communities with the means to find the most effective solutions and – at the end of the two year evaluation – work to scale up the best evidence-based strategy.

It is time to level the playing field to make sure all workers, regardless of the type of work they do, have access to a social safety net they can rely on in times of need for their entire lifetime.

A. National Evaluation on Portable Benefits

With over 14 million claims for the Pandemic Unemployment Assistance program alone, we know workers who are not eligible for traditional unemployment insurance make up a significant swath of the economy and are most vulnerable in the middle of a pandemic. They need real solutions.

For these workers, trends in the 21st century economy suggest they are increasingly and urgently in need of a benefits system supporting employment mobility.[49] Current estimates suggest that a third of the labor force is engaged in some type of contingent or alternative work arrangement, whether that's as a primary occupation or as a way to supplement traditional employment.[50]

Currently, there is a decline in coverage rates of key worker benefits and a gap in coverage between traditional and non-traditional workers.[51] For those engaging in non-traditional work as their primary form of occupation, COVID-19 has demonstrated how vulnerable it makes the rest of society for millions to be participating in the labor market without access to a worker safety net. [52]

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46 Bloomberg Law. January 2, 2020. "State Laws to Take On Gig Workers, Wages, Overtime in 2020." Retrieved: https://news.bloomberglaw.com/daily-labor-report/state-laws-to-take-on-gig-workers-wages-overtime-in-2020

47 NPR. January 29, 2018. "The Future of Benefits: A New York Program Might Provide a Model." Retrieved: https://www.npr.org/2018/01/29/580829372/the-future-of-benefits-a-new-york-program-might-provide-a-model

48 Pennsylvania Capital Star. 2019. "Philly Council passes bill to extend labor protections for domestic workers." Retrieved: https://www.penncapital-star.com/civil-rights-social-justice/philly-council-passes-bill-to-extend-labor-protections-for-domestic-workers/

49 Reder, Libby, Shelly Steward, and Natalie Foster. 2019. "Designing Portable Benefits: A Resource Guide for Policymakers." Aspen Institute Future of Work Initiative.

50 Aspen Institute Future of Work Initiative Gig Economy Data Hub. https://www.gigeconomydata.org/

51 Bureau of Labor Statistics. "National Compensation Survey." U.S. Department of Labor.; Gig Workers in America: Profiles, Mindsets, and Financial Wellne

52 Bureau of Labor Statistics. 2018. "Contingent Worker Survey." U.S. Department of Labor.ss; 2017, Harris Poll, Prudential.

To succeed in the 21st century, all workers need a baseline of financial security. They should have access to a system of benefits that are portable from job to job, gig to gig, regardless of how long they work.

Proposal: The Department of Labor should appropriate funding to states and local governments, worker advocate non-profits, and unions based on population state size to experiment with worker benefits delivery for independent and contingent workers as well as modernize unemployment insurance technology. A national impact evaluation of different portable benefits strategies at the local level will provide federal policymakers with the data necessary to understand which programs could work well and be brought to scale at the national level, including options that contain employer contributions. Meanwhile, at the local level, a demonstration could help attract entrepreneurial talent to an area willing to experiment with some kind of work-based social safety net for independent workers.

This proposal is similar to the bipartisan S.4442 Emergency Portable Benefits for Independent Workers Act, introduced in July 2020 by Senator Warner and Senator Daines. That bill is an expanded version of S.541, the Portable Benefits for Independent Workers Pilot Program Act which was introduced in February 2019 by Senator Warner, Senator Young, Senator Bennet, Senator Sasse, Senator King, and Senator Hoeven.

B. Increasing the Minimum Wage

The federal minimum wage – first created in 1938 – is currently too low to provide for the American worker. Since its establishment, it has been raised 22 times, with the last increase (to $7.25) enacted in 2007 and implemented in 2009. Based on today's estimates, American workers making the federal minimum wage could not afford a 2-bedroom apartment anywhere in the United States[53] and additionally could not afford a 1-bedroom apartment in 96% of counties in America.[54] No modernization of worker benefits would be complete without a wage floor for Americans that allows them to put a roof over their head.

Critics have su!ested that raising the minimum wage would reduce employment. On the contrary, academic evidence su!ests that recent increases in the minimum wage around the country – especially those enacted gradually – have raised earnings in low-wage jobs without reducing employment.[55;56]

[53] Bureau of Labor Statistics. "National Compensation Survey." U.S. Department of Labor.; Gig Workers in America: Profiles, Mindsets, and Financial Wellness; 2017, Harris Poll, Prudential.
Jan, Tracy. June 13, 2018. "A minimum-wage worker can't afford a 2-bedroom apartment anywhere in the U.S." Washington Post. Retrieved: https://www.washingtonpost.com/news/wonk/wp/2018/06/13/a-mini- mum-wage-worker-cant-afford-a-2-bedroom-apartment-anywhere-in-the-u-s/
[54] National Low Income Housing Coalition. "Out of Reach 2020" Report. Retrieved: https://reports.nlihc.org/oor/about
[55] Cengiz, Doruk, Arindrajit Dube, Attila Lindner, and Ben Zipperer. 2019. "The Effect of Minimum Wages on Low-Wage Jobs." The Quarterly Journal of Economics 134.3, pp. 1405–1454.
[56] Dube, Arindrajit and Attila Lindner. 2020. "City Limits: What Do Local-Area Minimum Wages Do?" Journal of Economic Perspectives forthcoming.

Current estimates suggest that raising the minimum wage gradually to $15 would raise the wages of roughly 30 million Americans. [57]

Lastly, we know that underrepresented groups, particularly Black and Latino workers, are overrepresented in the share of workers currently making minimum wage. Black workers make up 12.2 percent of the total workforce but 16.7 percent of minimum wage workers.[58] Raising the minimum wage would be one step in the direction of addressing issues of racial economic inequality.

Proposal: Increase the minimum wage gradually to $15 an hour. Importantly, index future increases in the minimum wage to median wage growth to avoid the requirement of another Act of Congress to increase the floor for Americans' living standards.

Senator Warner is a co-sponsor of the Raise the Wage Act, S.150.

C. Portable Retirement Investment Accounts

For generations employer-funded pensions were a critical component of a worker's retirement plan. However, since the 1980's, the retirement landscape has shifted away from traditional defined benefit pension plans towards tax preferred defined contribution options, like 401Ks. The defined contribution model has worked well for some workers, but has left others behind and failed to adapt to the changing nature of work in the 21st century. As millions of workers no longer hold one job with one company for their entire adult life and others engage in alternative work arrangements in some capacity, the existing defined contribution retirement options are inadequate.

According to the Bureau of Labor Statistics, even one-third of employees work without access to any employer provided retirement account.[59] Among those who do, the challenges of moving from job to job are leading to millions of retirement accounts being "lost" by the workers who contributed to them.[60]

[57] Cooper, David. 2017. "Raising the minimum wage to $15 by 2025 would lift wages for 33 million American workers." Economic Policy Institute. Retrieved: https://www.epi.org/publication/minimum-wage-15-by-2025/

[58] Ibid

[59] "Employee Benefits Summary: Retirement benefits: Access, participation, and take-up rates," U.S. Bureau of Labor Statistics, March 2017, accessed October 2018, https://www.bls.gov/ncs/ebs/benefits/2017/ownership/private/table02a.htm

[60] Ben White, "The Story Behind 16 Million Abandoned Retirement Savings Accounts," The Aspen Institute, June 6, 2018, accessed October 2018, https://www.aspeninstitute.org/blog-posts/the-story-behind-16-million-abandoned-retirement-savings-accounts/.

As a consequence, the retirement savings gap — the amount between what people have and should have — was $28 trillion in the U.S. in 2015, but is expected to swell to $137 trillion by 2050.[61] These gaps in the retirement savings market are hurting American workers and necessitate aggressive solutions to stave off the looming retirement crisis.

Proposal: Retirement for the 21st century needs to be universally accessible, portable, and easy for workers to understand. A Portable Retirement Investment Account (PRIA) would be a new type of retirement savings vehicle that would improve retirement for all workers who are increasingly working more jobs for more employers during their career. The account would be a portable, universal retirement vehicle that is accessible whenever needed, filling the gaps within the existing retirement savings market. A new federal entity would administer PRIA accounts, functioning as a one-stop shop for helping workers save, thus minimizing confusion and ensuring that every dollar workers want saved in their PRIA gets there, including contributions, rollovers, and even "lost" retirement accounts.

This proposal is similar to a concept released in a white paper by Senator Warner and Congressman Jim Himes in December of 2018.

D. Restriction of Non-compete Clauses

Over the past several years, employment arrangements have increasingly included more non-compete clauses – a stipulation that employees will not work for a rival company or enter into a similar profession as the employer. Non-compete clauses were originally created to discourage technical employees from selling trade secrets to competitors. Though they have existed for a long time, their use in labor contracts for low-wage workers is on the rise;[62] increasingly they are affecting security workers, fast-food workers, and certain independent workers like home care workers.[63] Non-competes apply downward pressure on wages and unnecessarily limit worker mobility.[64]

For independent contractors, in particular, this eliminates the very notion that contractors are free to work when and where they choose. Abuses like this can cause labor market friction, which can stifle growth and entrepreneurship.

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61 World Economic Forum White Paper (2017): "We'll Live to 100 – How Can We Afford It?" http://www3.weforum.org/docs/WEF_White_Paper_We_Will_Live_to_100.pdf

62 Ibid

63 Employee Benefits Summary: Retirement benefits: Access, participation, and take-up rates," U.S. Bureau of Labor Statistics, March 2017, accessed October 2018, https://www.bls.gov/ncs/ebs/benefits/2017/ownership/private/table02a.htm

64 Walter, Karla (2019, January 9). The Freedom to Leave. The Center for American Progress. Retrieved from https://www.americanprogress.org/issues/economy/reports/2019/01/09/464831/the-freedom-to-leave/

States around the country are enacting bans or limitations on non-competes in various forms, including California, Colorado, Idaho, Illinois, Nevada, New Mexico, Oregon, Rhode Island, Maryland, Maine, New Hampshire,[65] and Utah.[66] The federal government should follow these state-level limitations with federal action across all states to limit confusion over their use and applicability.

Proposal: Ban non-compete clauses for all workers making less than three times the federal minimum wage, working without a W-2, or in special alternative work arrangements.

E. Study Temp Agency Conversion Fees

Temporary work arrangements are another area where vulnerable workers may face additional labor market friction. Temporary staffing agencies have historically operated on a business model focused on short-term placement with clients, such as during seasonal spikes in demand or to cover employee leave.[67] Today, however, the National Employment Law Project points out that 2.8 million Americans get their job through staffing agencies.[68] Staffing agencies may be entrenching their position through the use of through the use of steeper and steeper conversion fees – a fee paid to the staffing agency from the client for converting a temp worker into a full-time employee, often taken as a percentage of a temporary worker's annual salary.[69] This could potentially discourage movement that would be welcomed by temporary workers, as surveys suggest that 46% of temporary workers want a permanent job.[70] Some states, such as Illinois, California, and Massachusetts, have enacted new laws to regulate the industry.[71] More research is needed to fully understand the contours of the problem for workers seeking permanent employment.

65 New Hampshire. https://www.jdsupra.com/legalnews/maine-and-new-hampshire-join-the-ranks-60255/

66 Belitz, Hannah (2016, May 3). Use and Abuse of the Non-Compete: When Employers Utilize Non-Compete Clauses to Undercut Vulnerable Workers. On Labor. Retrieved from https://onlabor.org/use-and-abuse-of-the-non-compete-when-employers-utilize-non-compete-clauses-to-undercut-vulnerable-workers/

67 Peck, Jamie and Nik Theodore. 2007. "Flexible recession: the temporary staffing industry and mediated work in the United States." Cambridge Journal of Economics. Vol. 31 (171-192).

68 National Employment Law Partnership. "Temped Out: How the Domestic Outsourcing of Blue-Collar Jobs Harms America's Workers." Retrieved: https://s27147.pcdn.co/wp-content/uploads/2015/02/Temped-Out.pdf

69 Ibid

70 National Employment Law Project (2018, June 7). "America's nonstandard workforce faces wage, benefit penalties, according to U.S. Data." National Employment Law Project. Retrieved from https://nelp.org/news-releases/americas-non-standard-workforce-faces-wage-benefit-penalties-according-us-data/

71 Schuhrke, Jeff. October 8, 2017. "A trailblazing new law in Illinois will dramatically expand temp workers' rights." Salon. Retrieved: https://www.salon.com/2017/10/08/a-trailblazing-new-law-in-illinois-will-dramatically-expand-temp-workers-rights_partner/

Proposal: Require the U.S. Department of Labor to conduct a study of employment outcomes of temporary staffing agencies and the historical use of conversion fees.

F. Robust Government Data on Automation and Workforce Trends

For federal policymakers to reach a consensus on how to adequately serve workers in the 21st century, government needs to urgently collect adequate data on workforce trends. Rapid technological innovation and an increasingly globalized economy have changed the composition of certain occupations and skillsets. In some cases, specific opportunities are less stable, secure, and more likely to be automated.[72] Unfortunately, due to measurement issues, our government does not track data on automation of occupations or skills. What's more, the statistical infrastructure of the United States, once the model for all other countries, is underfunded.

There are three important workforce trends that policymakers should be tracking. First, estimates suggest that approximately 25% of the U.S. workforce will face high exposure to automation in the coming decades (with about 70% of current tasks being substituted).[73] Second, available data – though limited – suggests companies are investing less in worker training.[74] Finally, as noted previously, tax data suggests that at least a third of the U.S. workforce is engaged in some type of alternative work arrangement, including those that supplement traditional W-2 labor.[75]

These trends present unique challenges for our country, and it is crucial that policymakers have up-to-date information on the workforce to understand its growth and unique needs. Unfortunately, public data on workforce trends, particularly as applied to independent workers, employer-provided training, and automatable jobs and skills, is inadequate.

Proposal: Increase funding for the non-partisan Bureau of Labor Statistics to create measures of automatable jobs and tasks, re-field the Survey of Employer-Provided Training, and field the Contingent Worker Survey every other year with additional questions about supplemental work. The data should provide adequate detail on the physical, educational, and cognitive skills needed for different occupations.

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72 Aspen Future of Work Initiative 2017. "Toward a New Capitalism: The Promise of Opportunity and the Future of Work." January 12. https://www.aspeninstitute.org/publications/the-promise-of-opportunity-and-the-future-of-work/

73 Muro, Mark, Robert Maxim, and Jacob Whiton. 2019. "Automation and Artificial Intelligence: How Machines Are Affecting People and Places." Washington, D.C. Brookings Institution report.

74 Council of Economic Advisors. 2015. "Economic Report of the President." https://obamawhitehouse.archives.gov-/sites/default/files/docs/cea_2015_erp_complete.pdf.; Waddoups, C. Jeffrey. 2016. "Did Employers in the United States Back Away from Skills Training during the Early 2000s?" ILR Review 69, no. 2 (March): 405-434. http://ilr.sagepub.com/content/69/2/405.

75 Bracha, Anat, and Mary Burke. 2018. "Wage Inflation and Informal Work." Federal Reserve Bank of Boston Current Policy Perspectives. No. 18-2. https://www.bostonfed.org/publications/current-policy-perspectives/2018/wage-inflation-and-informal-work.aspx

This proposal is similar to S. 1738, introduced in June 2019 by Senators Peters and Young.

G. Evaluate the Role of Fissured Workplaces

While modernizing the American social safety and reducing labor market friction should be important hallmarks of a 21st century economy, policymakers will also likely need to address the trends that have led to labor market polarization in the first place. In the past several decades, companies are increasingly outsourcing competencies perceived as less essential or valuable to subcontractors as a way to cut costs.[76] In practice, this meant that certain tasks and occupations in payroll, accounting, janitorial services, facilities maintenance, security, and food preparation among others – occupations we consider “essential” in a COVID-19 economy - would no longer be done or performed by in-house employees of the company. Instead, these tasks might still be completed by workers in the same building as core company employees, but – in reality – their compensation and benefits would be provided by a subcontractor. This type of arrangement is known as a “fissured workplace” – an environment where a primary employer outsources non-core business functions to subcontracted firms but still maintains tight control over the outcomes of those subcontractors.[77]

We know that fissured workplaces can lead to compensation, benefits, and training penalties for workers in certain subcontracted occupations. For example, by the year 2000, 45% of janitors and over 70% of security guards worked as subcontractors instead of in-house employees.[78] While studying this phenomenon, researchers found that contracted janitors earned about 15% less than in-house janitors and, similarly, contracted security guards earned 17% less than in-house guards.[79] The National Employment Law Project suggests that only 12.8% of temporary help agency workers, 28.2% of on-call workers, and 41.3% of workers provided by contract firms have access to employer-provided health insurance compared to a majority of direct employees.[80]

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76 Weil, David. 2019. “Understanding the Present and Future of Work in the Fissured Workplace.” RSF: Russell Sage Foundation Journal of the Social Sciences 5(5):147-65.

77 Ibid

78 Dey, Matthew, Susan Houseman, and Anne Polivka. 2010. “What Do We Know About Contracting Out in the United States? Evidence from Household and Establishment Surveys.” In Labor in the New Economy, edited by Katharine Abraham, James Spletzer, and Michael Harper. Chicago: University of Chicago Press.

79 Berlinski, Samuel. 2008. “Wages and Contracting Out: Does the Law of One Price Hold?” British Journal of Industrial Relations 46(1): 59-75.

80 National Employment Law Project. 2018. “America’s Nonstandard Workforce Faces Wage, Benefit Penalties, According to U.S. Data.” Retrieved: https://www.nelp.org/news-releases/americas-nonstandard-workforce-faces-wage-benefit-penalties-according-us-data/

Finally, fissured workplaces have likely contributed to the decline in employer-sponsored training since employers are not expected to train workers provided by a subcontractor.[81] This all presents a problem for a resilient and equitable American economy, particular given that Black and Hispanic workers are overrepresented in contract-based work.[82]

Proposal: the Government Accountability Office should evaluate the state of fissured workplaces in America to understand further why they are becoming the norm in corporate settings. Pending the results of the evaluation, policymakers should consider regulating the extent to which companies can limit workplace compensation, benefits, and opportunities for advancement for workers that are directly serving the business.

This proposal is similar to the study on fissured workplaces that the GAO is completing for Senator Warner and Senator Brown.

[81] Lerman, Robert. Urban Institute. "Are Employers Providing Enough Training? Theory, Evidence and Policy Implications." Prepared for the National Academy of Sciences.

[82] National Employment Law Project. 2018. "America's Nonstandard Workforce Faces Wage, Benefit Penalties, According to U.S. Data." Retrieved: https://www.nelp.org/news-releases/americas-nonstandard-work-force-faces-wage-benefit-penalties-according-us-data/