

HOW THE U.S. GOVERNMENT IS MAKING WASHINGTON D.C.

THE CAPITOL OF INEQUALITY



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HOW THE U.S. GOVERNMENT IS MAKING WASHINGTON D.C. THE CAPITOL OF INCOME INEQUALITY

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The DC Fiscal Policy Institute conducts research and public education on budget and tax issues in the District of Columbia, with a particular emphasis on issues that affect low- and moderate-income residents.

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Good Jobs Nation is an organization of low-wage federal contract workers advocating for living wages, benefits and the right to organize.

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OVERVIEW

While Washington, DC is among our nation's most economically successful cities, it is also one of the most economically unequal places to live and work in America. The richest five percent of Washington's households makes \$532,000 per year on average—more than the richest five percent in any major U.S. city.¹ Meanwhile, the bottom 20 percent of Washington households survive on \$9,900 a year.² Given that Washington is by some measures the most expensive city in the country to raise a family,³ it is arguably the hardest place in America to support a family on low wages, or even middle-class wages.

The U.S. government plays a key role in driving both Washington's economic prosperity and its poverty. The District is a leading-edge “knowledge economy” stimulated by direct federal employment, federal contract spending in high-tech and defense industries, and federal legislative and regulatory activities.⁴ But at the same time, employment in low-wage industries—such as food service and accommodation—is growing at even faster rates than in these high-skill occupations.⁵ And most troubling, while real wages for highly educated workers in the region show robust growth, hourly pay for workers with less than a college degree is actually falling.⁶ Washington's wage gap is now the highest it has been in 35 years.⁷

This report finds that federal contracting contributes to Washington's wide income inequality. Almost 30 percent of federal contract jobs pay less than the living wage for a family of four for the District of Columbia. Private businesses perform federal contracts within the District of Columbia in industries ranging from janitorial services to software design. Some 24,500 of these jobs—nearly one in three—pay less than \$20 per hour, the

living wage in the city for a family of four. To put this in perspective, the federal government creates more low-wage jobs than the entire workforce of the DC region's largest employer, Northrop Grumman, which has 16,600 employees in the area.

Meanwhile, federal contracts also create 12,600 jobs in DC that pay more than \$120,000 a year.

The overall result of these trends, according to urban theorist Richard Florida, is that “the [federal] government has done much to stoke the fire of the region's knowledge economy [but] little to mitigate the splitting of its labor market ... and may actually be contributing to the region's economic and geographic divides.”⁸

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The President can act to improve the pay and conditions of this low-wage workforce by using his power to prescribe “policies and directives” for contracting.⁹ Through a presidential executive order, for example, preference for contract awards can be given to firms that pay all of their employees at least the local area living wage for a family of four.

THE FEDERAL GOVERNMENT IS A LOW-WAGE JOB CREATOR IN ITS OWN BACKYARD

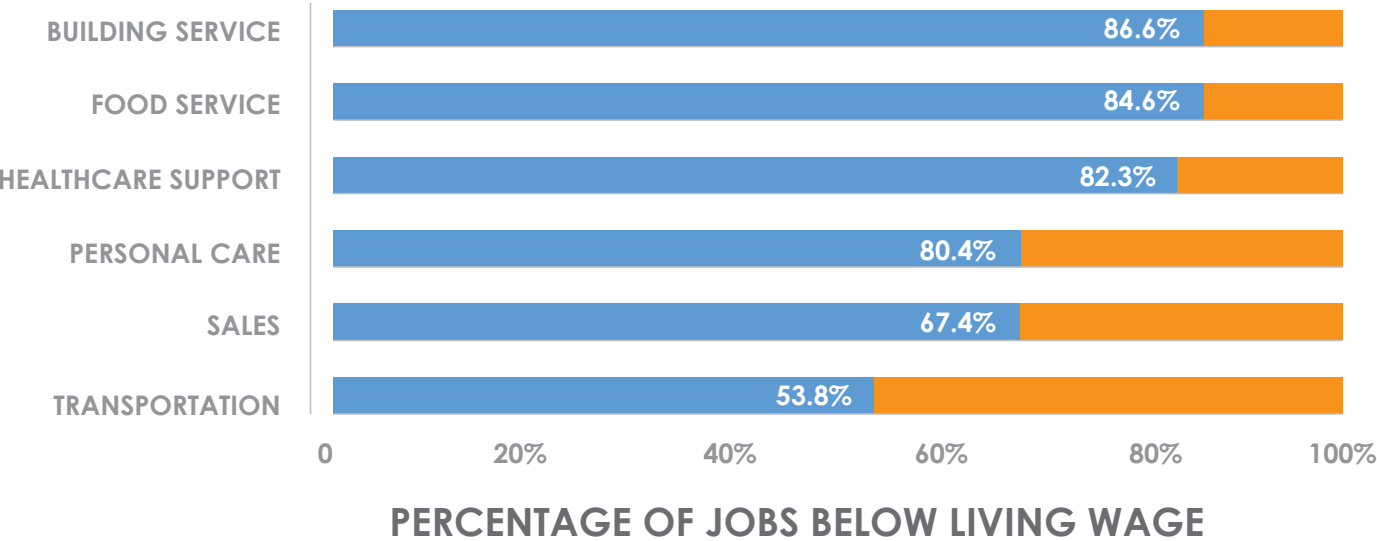
Federal contracting is a major source of employment in Washington, DC. The U.S. government spends \$21.2 billion on private-sector contracts that create approximately 85,000 jobs, equivalent to 13 percent of the 674,000 total jobs in the District. These jobs cover a wide range of occupations, with the most common being office and administrative support (roughly 16,800 jobs), computer and mathematical occupations (8,800), sales (8,500), and business and financial work (8,400). (See Appendix, Table 1, for the full occupational breakout and for the methodology used to calculate these numbers.)

However, a substantial proportion of federal contract workers in Washington are not paid enough to support a family. According to the Massachusetts Institute of

Technology’s Living Wage Calculator, the living wage in DC is \$20.27 for a family of four with two working adults—the highest level of any major city in the country.¹⁰ This wage is defined as the minimum income necessary to meet basic living expenses, taking into account local costs and tax rates. MIT researchers note that families below this income level are likely to “suffer consistent and severe housing and food insecurity.”

Unfortunately, almost 30 percent of federal contract jobs in the city—employing 24,500 workers—fail to meet even this very low standard. (See Chart One and Appendix, Table 3, for the full occupational breakout of sub-living wage jobs and sources.)

CHART 1. LOWEST WAGE FEDERAL CONTRACTING OCCUPATIONS



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- For example, **nearly 9 in 10 of the federally contracted building and grounds cleaning and maintenance jobs** pay less than the \$20 living wage, as do **85 percent of federal contract jobs for food preparation and service work**. Other occupations where the majority of jobs pay less than \$20 per hour include healthcare support, personal care, sales, and transportation and material moving occupations.
 - Some contract workers make far less than the living-wage benchmark. For example, half of all federally contracted food preparation and service workers make just \$10.82 per hour, or \$22,500 per year.

To put these numbers in perspective, the federal government creates more low-wage jobs than the entire workforce of the DC region's largest employer, Northrop Grumman, which has 16,600 employees in the area.¹¹ Moreover, federal government contracting is responsible for almost 14 percent of the 177,000 jobs in the District that pay less than a living wage.

The low-wage workforce at the U.S. Capitol, who serve our nation's lawmakers and lobbyists, illustrates how federal contracting exacerbates the city's economic divide. The Senate Dining Room, reserved for U.S. Senators and their guests, is perhaps America's most exclusive members-only restaurant. The chefs and restaurant workers were once directly employed by the federal government and earned living wages as well as health care and retirement benefits. However, in 2008, the U.S. government outsourced its food service operations to a private corporation, which promptly slashed pay and benefits for new hires. Jobs that once paid living wages with full benefits now pay just over \$10 per hour. (See page 4)

Over the same time period, U.S. Senators' median net worth increased substantially, rising from just over two million dollars, to over \$2,600,000, an increase of 27 percent."

In other words, the experience of U.S. Capitol workers shows how federal contracting can leave low-skill workers economically worse-off and contributes to making the seat of our democracy the "Capitol of Inequality."

A TALE OF TWO WORKERS AT THE U.S. CAPITOL

ERROL BAKER has worked for a U.S. Capitol food service contractor for 12 years. He is 52 years old and only earns \$11.30 per hour. Because he earns so little, he works a second job to make ends meet.

“ I love my job, and I’m a hard worker. I serve Senators and their staff every day, but it’s not enough for me to pay my bills. I once served President Obama when he was in the Senate. He gave me a \$20 tip. But workers like me deserve more than a good tip. We need federal contractors to pay us living wages and allow us to form a union without retaliation. ”

NORMA ROGERS has been working at the U.S. Capitol cafeteria for 33 years. She’s 76 years old and earns \$17 an hour with health care and retirement benefits.

“ I have a good middle class job because started out as a government employee. Luckily, after the food service jobs were privatized, I was able to keep my federal wages and benefits. But what’s happening to the newer workers like Errol is a tragedy. Low pay and no benefits mean that many workers take on an evening job and rely on public assistance to make ends meet. The government should not allow a private contractor to come into the U.S. Capitol and turn good American jobs into bad ones. ”

FEDERAL CONTRACT WORK CONTRIBUTES TO INCOME INEQUALITY IN DC

While federal contracting work is a major source of low-wage jobs in DC, it also is a source of many of the city’s highest paying jobs, fueling income inequality in a city with one of the widest rich-poor gaps in the nation.

Some 12,600 federal contract workers—nearly 15 percent of all federal contractors—make over \$58 per hour, or about \$120,000 per year, as shown in Table 1.

Table 1. **NUMBER OF HIGH-WAGE FEDERAL CONTRACTING JOBS IN WASHINGTON,DC BY OCCUPATION**

OCCUPATION TITLE	NO. OF FEDERAL CONTRACTING JOBS THAT PAY MORE THAN \$58/HOUR
Management Occupations	3,067
Legal Occupations	2,396
Computer and Mathematical Occupations	2,112
Architecture and Engineering Occupations	1,683
Business and Financial Operations Occupations	1,393
Life, Physical, and Social Science Occupations	630
Sales and Related Occupations	468
Arts, Design, Entertainment, Sports, and Media Occupations	396
Healthcare Practitioners and Technical Occupations	219
Protective Service Occupations	132
Transportation and Material Moving Occupations	60
Education, Training, and Library Occupations	8
Community and Social Service Occupations	2
TOTAL	12,568

Sources: Bureau of Labor Statistics, *Usaspending.gov*, the Economic Census for 2007, and authors' calculations. See Appendix for details.

THE PRESIDENT CAN HELP LOW-WAGE CONTRACT WORKERS BY INCENTIVIZING COMPANIES TO OFFER A LIVING WAGE

Historically, the federal government has recognized that it can play a role in setting wage and benefit standards for workers on its contracts. Unfortunately, the laws and policies already in place do not go far enough, leaving many workers and their families in poverty.

- **Current contract wage laws do not ensure that all federal contract workers receive a living wage.** The Service Contract (SCA) and Davis-Bacon Acts mandate minimum pay and benefit standards on many federal service and construction contracts and provide some degree of wage protection for many federal contract workers. In Washington, DC, 5,372 additional federal contract workers would be making less than a living wage without these laws.

However, the federal prevailing wage laws do not go far enough. As this analysis shows, tens of thousands of federal contract workers are still paid less than a living wage. This is because either their job titles are not covered by the SCA or Davis-Bacon, or wage rates set by these laws are lower than \$20 per hour.¹²

- **The President's 2014 Minimum Wage Executive Order also fails to establish a living wage.** In February 2014, President Obama signed Executive Order 13658, "Establishing a Minimum Wage for Contractors," to raise the minimum wage to \$10.10 for all workers on federal construction and service contracts.¹³ The White House took this action because it believed that "raising the minimum wage nationwide will increase earnings for millions of workers, and boost the bottom lines of businesses across the country."¹⁴

But in the District of Columbia, where the living wage threshold is \$15 per hour for an individual and over \$20 for a family of four (and the local minimum wage is now \$10.50), this executive order does little to keep federal contract workers out of poverty.

Given these problems, the President and other lawmakers can and should act to improve the living standards of Washington's workers by incentivizing federal contracting firms to pay their employees a living wage. For example, through a presidential executive order, preference for contracts awards can be given to firms that pay all of their employees at least the local area living-wage for a family of four. Establishing this preference would reduce incentives companies currently face to depress wages in an effort to lower their bid prices.

By encouraging contract companies to be "model employers" who pay workers living wages and benefits, the President and lawmakers can leverage taxpayer contracting dollars to make sure the people who serve them every day have good jobs that provide pathways into the middle class, instead of out of it.

CONCLUSION

The large number of low-wage federal contract jobs in Washington, DC is an important reminder that the federal government has failed to act as model employer both in its own backyard, and in the country as a whole. Raising wage standards for federal contractors will mean that more and more workers nationwide will be able to support themselves and their families without government assistance.

By using its buying power to create good jobs, the federal government would set a standard for states, cities, and private employers to follow.

According to the White House, the executive order boosting federal contracting wages to \$10.10 stimulated many states, municipalities, and businesses to increase wage rates.¹⁵ Additional executive action to encourage federal contractors to pay a genuine living wage would build on this momentum and help realize the President's goal of ensuring that "nobody who works full-time should ever have to raise a family in poverty."¹⁶

APPENDIX: METHODOLOGY

To estimate the number of employees working on federal contracts, we divided the dollar value of contracts performed within each industry in the District of Columbia in 2014, published at www.usaspending.gov, by the dollar value of receipts per employee for that industry within the District of Columbia reported by the Economic Census for 2007 (the latest available), from <http://www.census.gov/econ/census>, adjusted for inflation. This calculation gave us the number of full-time-equivalent employees working on federal contracts within each major industrial sector.

To estimate the number of contract employees paid below a living wage, we first calculated the number of employees in each industry that fall within each major occupational category, by dividing the FTEs in each industry by the occupational distribution of each industry according to data from the Bureau of Labor Statistics, Occupational Employment Survey, <http://www.bls.gov/oes/tables.htm>. We then summed the numbers of federal contract workers within each occupational category.

We also estimated that an additional 1,950 food-service workers are employed on federal concessions contracts in the District of Columbia, including 1,000 workers at the 20 cafeterias operated by the General Services Administration in federal office buildings; 500 workers at the Senate, House, Library of Congress, and U.S. Supreme Court cafeterias; 100 workers in the Ronald Reagan Building food court owned by the GSA; and 350 at the Smithsonian museums and the National Zoo.

(The value of these contracts is not available from [usaspending.gov](http://www.usaspending.gov), because that reports only contracts in which vendors receive money from the government, whereas in concessions contracts the vendor pays money to the government.)

The number of jobs within each occupational category for the entire DC workforce and for the federal contract workforce is shown in Table 2.

TABLE 2. **NUMBER OF TOTAL JOBS AND FEDERAL CONTRACTING JOBS IN WASHINGTON, DC BY OCCUPATION**

OCCUPATION TITLE	TOTAL NUMBER OF JOBS IN DC	TOTAL NUMBER OF FEDERAL CONTRACTING JOBS IN DC
Office and Administrative Support Occupations	82,470	16,827
Computer and Mathematical Occupations	37,270	8,772
Sales and Related Occupations	26,090	8,475
Business and Financial Operations Occupations	103,260	8,369
Architecture and Engineering Occupations	12,480	5,304
Management Occupations	78,640	5,237
Transportation and Material Moving Occupations	12,130	4,112
Building and Grounds Cleaning and Maintenance Occupations	21,860	4,088
Legal Occupations	39,110	3,736
Production Occupations	5,080	2,708
Food Preparation and Serving Related Occupations	53,590	2,594
Arts, Design, Entertainment, Sports, and Media Occupations	29,590	2,432
Life, Physical, and Social Science Occupations	22,920	2,031
Installation, Maintenance, and Repair Occupations	9,500	1,968
Healthcare Practitioners and Technical Occupations	31,010	1,943
Construction and Extraction Occupations	11,980	1,915
Protective Service Occupations	27,620	1,736
Education, Training, and Library Occupations	34,230	929
Personal Care and Service Occupations	12,260	848
Healthcare Support Occupations	10,980	779
Community and Social Service Occupations	12,290	174
TOTAL	674,360	84,977

Sources: Bureau of Labor Statistics, *Usaspending.gov*, the Economic Census for 2007, and authors' calculations.

We then calculated the total number of sub-living wage workers in Washington, DC, based on the Bureau of Labor Statistics May 2014 State Occupational Employment and Wage Estimates, available at http://www.bls.gov/oes/current/oes_dc.htm. This database gives wage data in the 10th, 25th, 50th, 75th, and 90th percentiles by NAICS occupational title, which allowed us to estimate the share of workers in that occupational category making less than \$20 per hour. We identified the two percentiles between which \$20 fell, and then use straight-line calculations to estimate the wage percentile represented by \$20 per hour. To adjust for the effect of federal prevailing wage laws, which set wage rates by occupation for most service and construction workers on federal contracts, we included only workers in occupations for which the hourly wage rate set by those laws was below \$20 per hour.

Prevailing wage rates for Washington, DC are available at wdol.gov.

From these data, we extrapolated the percentage of workers for each title making less than \$20 per hour in the District of Columbia. We applied this percentage to the total number of employees in each major occupational title, per our calculation above, to estimate the total number of federal contract workers in the District making less than the living wage of \$20 per hour. See Table 3.

The same methodology was applied to calculate the number of federal contract workers making over \$58 per hour.

Table 3. **NUMBER AND PERCENT OF FEDERAL CONTRACTING JOBS PAYING LESS THAN \$20/HOUR IN WASHINGTON, DC, BY NAICS OCCUPATION TITLE**

OCCUPATION TITLE	TOTAL FEDERAL CONTRACTING JOBS	NO. OF JOBS MAKING LESS THAN \$20/HOUR	PROPORTION OF CONTRACTING JOBS THAT PAY LESS THAN \$20/HOUR
Building and Grounds Cleaning and Maintenance Occupations	4,088	3,538	86.6%
Food Preparation and Serving Related Occupations	2,594	2,194	84.6%
Healthcare Support Occupations	779	642	82.3%
Personal Care and Service Occupations	848	682	80.4%
Sales and Related Occupations	8,475	5,708	67.4%
Transportation and Material Moving Occupations	4,112	2,212	53.8%
Office and Administrative Support Occupations	16,827	6,456	38.4%
Community and Social Service Occupations	174	63	36.5%
Protective Service Occupations	1,736	587	33.8%
Production Occupations	2,708	741	27.4%
Installation, Maintenance, and Repair Occupations	1,968	401	20.4%
Construction and Extraction Occupations	1,915	333	17.4%
Arts, Design, Entertainment, Sports, and Media Occupations	2,432	299	12.3%
Life, Physical, and Social Science Occupations	2,031	186	9.2%
Healthcare Practitioners and Technical Occupations	1,943	124	6.4%
Management Occupations	5,237	126	2.4%
Business and Financial Operations Occupations	8,369	123	1.5%
Legal Occupations	3,736	54	1.4%
Computer and Mathematical Occupations	8,772	76	0.9%
TOTAL	85,034	24,546	28.9%

Sources: Bureau of Labor Statistics, *Usaspending.gov*, the Economic Census for 2007, and authors' calculations. See Appendix for details.

ENDNOTES

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