



Workers' Wages Sink as 'Domestic Outsourcing' Grows

By Martha C. White

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Say "outsourcing" and Americans think of call centers in India or factories in China. But American workers increasingly are being forced to navigate a byzantine system of third-party contractors that leads to lower pay and fewer benefits.

Call it "domestic outsourcing."

A [new report](#) from the National Employment Law Project says that domestic outsourcing makes it harder for workers to organize and effectively lets companies pass the buck on taxes, benefits and worker safety.

"This business model of subcontracting has become increasingly ubiquitous," said Ruth Milkman, sociology professor at the City University of New York Graduate Center.

Debbie DeCrow knows this firsthand. After 18 years driving a school bus in the greater Memphis area, the 60-year-old and her fellow drivers recently were summoned into an auditorium with one week left in the school year. They were all fired and then invited to apply for jobs at the company that was taking over the district's transportation, Durham School Services.

Shelby County Schools defended the decision to outsource busing following its 2013 merger with Memphis City Schools. "The District saved approximately \$1.9 million from its general fund by outsourcing all transportation services in 2014-15," spokesman Shawn Pachucki said via email. "We are told by Durham that the same base pay rate will be maintained for all District drivers that are hired," he said.

"We are still formulating the wage rates," Molly Hart, spokeswoman for National Express Corporation, parent company of Durham School Services, said via email.

'I knew all of their names'

DeCrow, who had been making more than \$15 an hour as a school district employee, said Durham offered a pay rate of \$10.25 an hour, with no sick days or paid vacation.

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"I knew all of their names, I kept up with their birthdays. I knew if there had been a death in the family," she said of the students she drove. "The job I do, I am worth more than \$10 an hour."

This kind of scenario is common, NELP says. "Once outsourced, workers' wages suffer as compared to their non-contracted peers," NELP said. The drop can be steep, the group said: Janitors' wages fell by seven percent, port truck drivers' pay dropped by 30 percent and food service workers lost \$6 an hour in wages.

As in the private sector, government contract workers earn less: In a 2009 report, the Economic Policy Institute found that more than twice the number of federal contract workers didn't make enough to lift a family of four above the poverty threshold when compared to workers employed directly by the government.

A study released Tuesday by advocacy group In The Public Interest says that contracting out jobs for corrections officers to trash collectors chips away at the economic stability that civil service jobs used to give families and communities. The group wants governments to examine the economic impact of outsourcing and mandate wage and benefit standards for contractors.

"Governments create and have the potential to create millions of low-wage jobs if they choose to contract with low-road contractors, thereby contributing to the disappearing middle class," the research warns. Taxpayers end up subsidizing these workers when they rely on food stamps, Medicaid and other forms of public assistance.

"Workers have less money to spend," said Daphne Greenwood, professor of economics at the University of Colorado, Colorado Springs.

Dispersing labor via outsourcing makes it harder for workers to stick together and fight for — or even be aware of — their rights, said Cathy Ruckelshaus, general counsel and program director at NELP. It also makes it harder to count them.

"Unfortunately, we don't have any numbers about how many workers fall into the domestic outsourcing category," said Annette Bernhardt, visiting researcher at the Institute for Research on Labor and Employment/Labor Center at the University of California, Berkeley.

Surveys indicate that it's highly prevalent, though. According to the new 2014 Aflac WorkForces Report, 39 percent of employers surveyed said they had hired independent

contractors or consultants in 2013, and 31 percent plan to hire independent contractors or consultants in the next 12 months.

Benefits businesses and workers

Chris Edwards, an economist at the conservative think-tank Cato Institute, argues that this shift toward subcontracting benefits businesses and workers. “A company can’t pay workers more than their productivity,” he said. “American businesses are efficient,” and outsourcing is part of that, he said. “Ultimately, it means higher worker wages.”

That wasn’t the case for 32-year-old Erick Penny, who worked for two years as a baggage handler at the Indianapolis International Airport. Penny, who earned less than \$9 an hour, found out after a couple of months on the job that before baggage handling was outsourced two years earlier, workers doing his job made \$15 an hour.

The merger of American Airlines and U.S. Airways prompted fierce competition, Penny said. Handlers were told the merged airline would choose one of the two companies, and the pressure was intense. “The district manager ... was just constantly hounding everyone,” he said. “He just kept saying we needed to prove we were better than them.”

Worker advocates say this isn’t uncommon. In some cases, competition among subcontractors even pushes some to skirt labor laws to save money, forcing workers to declare themselves independent contractors, LLCs or one-person franchisees to avoid paying payroll taxes and worker’s compensation.

“Companies that misclassify their workers can save as much as 30 percent of their payroll costs,” NELP said.

“It’s a huge problem and has been something that’s really hard to deal with,” said University of Oregon professor and labor law expert Gordon Lafer. By some estimates, he said, between 10 percent and 30 percent of so-called independent workers are misclassified and should be considered employees.

Even workers who are properly classified, though, might not make enough to take advantage of their status. “They did offer health insurance, but the cost was so high, with \$9 an hour, you couldn’t afford it,” Penny said.

He and his girlfriend at the time, who worked the same job, lived on the financial brink. “Any little thing happens, like her car breaks down because the polar vortex freezes the fuel lines ... we ended up missing like four days of work, and both got written up basically saying if we missed any more time at all we were going to be fired,” he said.