Unstable Schedules in Low Wage Work: A Hidden Employment Crisis

# **By Tara Marlowe**

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#### Abstract

The low wage labor market today is characterized by the increased utilization of part-time and temporary workers with volatile work schedules. These practices shift business risk to workers, and place their lives in a constant state of instability. Unpredictable work schedules prevent workers from pursuing supplemental employment, training, or attending to caregiver responsibilities. This diminishes the future economic potential of workers, effectively creating a worker caste system, and establishing a structural barrier to income mobility.

Policy intervention is needed to curb the unpredictable work scheduling practices that have become a ubiquitous part of low wage work. These practices have negative impacts that fall disproportionately on vulnerable groups of workers. They prevent economic mobility, subvert the social safety net into a subsidy for business, and impose negative effects on the economy.

### Introduction

In the early morning of August 24, 2014, Maria Fernandes, a 32-year-old fast food worker, pulled her car over to take a nap between shifts. Unable to find full-time work, Maria held three part-time jobs with various Dunkin Donuts stores in Northern New Jersey. Nine hours later she was found dead in her vehicle, overcome by fumes as she slept.

This tragic event brought media attention to the struggle of the nearly 7 million involuntary part-time workers who contend with profound income and schedule instability.

During the last three decades, corporate practices that emphasize short-term profitability over investments in long-term growth has brought immense financial rewards to top earners,

wage stagnation for the middle class, and income declines for the low wage worker. Low wage industries have increased utilization of part time workers as a cost containment strategy. These savings have been augmented through the implementation of scheduling software, which tightly tracks labor hours to anticipated demand. This has created an enduring sub-class of workers.

This paper begins with a definition of non-standard forms of employment (NSFE) and the conditions that have increased the prevalence of low wage part-time employment, followed by a discussion of unpredictable scheduling practices, its impact on the labor market and the workers who bear the private costs of this practice. The next section addresses the direct fiscal costs incurred to the public. I will conclude with some policy recommendations that may be implemented to promote a more inclusive prosperity.

### What is Precarious Work?

Precarious work, also referred to as contingent work, or non-standard forms of employment (NSFEs), has increased in recent decades. The International Labour Office of the United Nations (ILO) has defined non-standard forms of employment as anything other than full-time employment with the expectation of continued employment and access to benefits and protections generally enjoyed by regular employees doing equivalent work (International Labour Office, 2015). Types of NSFEs include part-time, on-call, outsourcing, independent contracting and temporary employees (Kalleberg, 2014). The U.S. Government Accountability Office estimates that the "core contingent" workforce increased to 7.9% of employed workers

<sup>1</sup> The ILO defines full time work as 35 or more hours per week.

in 2010, up from 7.1% in 2005 (GAO, 2015).<sup>2</sup> Researchers report up to a 35% wage differential between part- and full- time wages for the same work (Ton, 2012).

University of North Carolina professor Arne Kalleberg writes that the increase in contingent employment is the result of "the spread of employer practices that use layoffs as a business strategy, rather than as a last resort during downturns in the business cycle" (Kalleberg, 2014). Indeed, wage and benefit reductions are a major contributor to profits. In 2011, the Chief Investment Officer at J.P. Morgan Chase, wrote, "reductions in wages and benefits" are responsible for *a full 77%* of the increase in profits at the Standard and Poor's 500 companies from 2000 to 2007 (Cembalest, 2011).

Non-standard forms of employment are closely associated with low-skilled occupations, and traditionally employ more women and young people. In some cases, lower hiring standards for temporary workers can provide entrée into the workforce and provide valuable work experience for hard-to-employ workers. However, researchers have commented on the "growing stickiness of low wage careers" in which adults move from one low-paying job to another (Lambert & Henly, May 2010).

The ILO explains that these employment strategies impose more of the risk traditionally borne by businesses, onto the worker:

Labor market segmentation points to unequal risk-sharing, not only between regular and non-regular workers regarding unemployment and

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<sup>&</sup>lt;sup>2</sup> The GAO defines "core contingent" as agency temps, direct-hire temps, on-call workers and day laborers. This number increases to 40.4% when expanded to include independent contractors, self-employed persons, and standard part-time workers.

income security, but also between non-regular workers and employers in terms of economic adjustment, as workers in non-standard arrangements disproportionately bear the brunt" in an economic downturn (International Labour Office, 2015, p. 30).

An important component of precarious low wage work is the lack of schedule stability. "Just-in-time" work scheduling, as it is sometimes called, is adapted from manufacturing (Cappelli, 2008) and seeks to dynamically match labor hours with demand forecasts. Although the concept has been around since the mid-1970's (Sasser, 1976), it has been more widely applied recently, with the advent of data analytics and software that budgets labor in tighter increments than were previously possible.

Unpredictable work scheduling results in severe variability in hours and income (Lambert & Henly 2010). One work scheduling technique is the use of on-call shifts, which require an employee to be available and prepared to report to work with little or no advance notice. The worker loses the opportunity to for earnings if they are "called out" at the last minute. Another technique, common in restaurant work, are split shifts, where an employee will be told to clock out for a few hours in the middle of the day, only to return a few hours later. Alternatively, workers may arrive for a scheduled shift only to be sent home early or without clocking in at all.

The New York State Attorney General, Eric Schneiderman, recently sent a letter to 13 of the largest retailers requesting detailed information on their scheduling practices. The letter articulates the difficulty of "just-in-time" scheduling from the worker's perspective:

Unpredictable work schedules take a toll on all employees, especially those in low-wage sectors. Without the security of a definite work schedule, workers who must be 'on call' have difficulty making reliable childcare and elder-care arrangements, encounter obstacles in pursuing their education, and in general experience adverse financial and health effects, as well as overall stress and strain on family life. The requirement of being on call also interferes with such employees' ability to obtain supplemental employment in order to ensure financial security for their families (Schneiderman, 2014, p. 1).

There are numerous advantages to businesses that use NSFEs, including the relative ease of hiring and firing employees, reduced costs in employee benefits, and labor scheduling flexibility. These arrangements can also allow businesses to accommodate temporary absences of regular employees and meet demand fluctuations. Part time work is helpful for employers in retaining high-value employees, especially women. These retention part time positions differ from large-scale utilization of part time employment as a cost containment strategy, in that they are arrangements worked out individually between valued employees and the employer (Tilly, 1990)

The U.S. Department of Labor asserts that contingent employment is frequently used as a strategy to avoid legal and tax obligations, since non-standard employment facilitates misclassification of workers (U.S. Department of Labor). For example, some employers classify workers as independent contractors, thereby avoiding employment taxes and benefit obligations (Wood, 2015). Both the U.S. Department of Labor and the International Labour Office suggest that regulations, or the lack thereof, are cited as giving employers incentive to limit employee hours (International Labour Office, 2015) and may encourage the use of alternative arrangements (U.S. Department of Labor). In many cases, employers are not obligated to provide the same benefits to part-time workers or those hired through a third party agency as they do with regular full-time employees. The use of temporary employment agencies obscures the employment relationship and therefore the accountability of the employer. In August 2015 the National Labor Relations Board updated the "joint-employer standard," which seeks to hold staffing firms and their clients responsible for labor infractions (Labor Relations Review Board, 2015). The ILO asserts that the use of employment agencies has been a deliberate strategy to prevent labor organizing (International Labour Office, 2015).

#### The New Normal?

As of May 2015, 26 million Americans worked part-time (Van Horn & Zukin, 2015). Of these, 25 percent are "part-time for economic reasons" (PTER), a designation that refers to *involuntary* part-time.<sup>3</sup>,<sup>4</sup> *Voluntary* part time work has remained relatively steady for decades, due to more women opting to work full time.

The Great Recession appears to have ushered in a sea change in involuntary part time employment. During the two prior recessions, involuntary part-time increased by around 40

<sup>3</sup> The actual number of involuntary part time is likely higher due to the definitions, issues like childcare are considered to be "voluntary."

<sup>&</sup>lt;sup>4</sup> Part-time workers who hold *multiple* part-time jobs are counted by the U.S. Department of Labor as fully employed, although those workers bear considerable additional costs.

percent, and recovered in proportion with overall employment. However, in 2008-09 involuntary part time employment more than doubled from 4.5 to 9.4 million workers. Five years into the recovery, PTER was 67 percent higher than the pre-recession levels.<sup>5</sup>

Many mid- and high-wage jobs were lost during the Great Recession, and the recovery has been characterized by growth in low wage industries and part-time positions (Yellen, 2015). The Center for American Progress states: "This is a departure from the recovery after the recession in 2001, when low and high-wage job gains were comparable" (Covert, 2014, p. 1). The National Women's Law Center found that low wage occupations made up almost half of the jobs with the projected growth from 2012-2022 (Entmacher, Robbins, & Frohlich, December 2013).6

Involuntary part-time work may be considered hidden underemployment (Tilly, 1990). Twenty-six percent of all part-time workers say they have taken a job below their education level (Van Horn & Zukin, 2015). Despite being close to "full employment" as of June 2015, economists have expressed ongoing concerns about the quality of the labor market, citing the elevated level of involuntary part-time work as a concern (Yellen, 2015; Cashman & Buffie, 2015).

# Minority Women Disproportionately Effected

Sixty percent of job gains for women since the Recession are positions in low-paying

<sup>&</sup>lt;sup>5</sup> As of May, 2015 there were 6.7 million involuntary part time workers, signifying over 3 million 'missing' jobs.

<sup>&</sup>lt;sup>6</sup> These occupations include childcare, food preparation, bartenders, waitstaff, cashiers, personal care aides, home health aides, housekeepers and maids.

<sup>&</sup>lt;sup>7</sup> An inefficiency for both workers and the economy.

industries, as compared to 20% for men. (National Women's Law Center, July 2013). Involuntary part-time workers are more likely to be racial minorities and are less affluent than their voluntary part-time counterparts (Van Horn & Zukin, 2015). While women (of any race) make up 47% of the adult workforce, they are 77% of low wage workers (National Women's Law Center, June 2015). Women of color are more than twice as likely to be in low wage employment than the general population.<sup>8</sup>

Forty-four percent of women in the low wage workforce are aged 25 to 49, and another 26% are 50 to 75 years of age. Sixty five percent of low wage women are single, without a spouses' income to depend on and nearly half the women in low wage jobs are women of color. One third of low income households have children and of these, 2/3 are single parent households (Rumbold, et al., 2012). The Women's National Law Project states that the chronic poverty of low wage single parents "can affect their relationship with their children and the home environment and put their children at risk of falling behind even before they enter school" (Blank, Schulman, & Frohlich 2014). The children in these households are likely to experience reduced parental investment and ad hoc childcare arrangements, which can impair emotional and cognitive development. (Rumbold, et al., 2012). Other costs borne by individuals are high levels of stress that can contribute to family conflict and negative health outcomes (Golden 2015).

<sup>&</sup>lt;sup>8</sup> Women of color are 16% of the workforce, but represent 23% of minimum wage workers. (National Women's Law Center, 2014)

#### **Private Costs**

Severe fluctuations in hours (and income) make day-to-day financial decisions difficult. Compounding the problems of low wages and scarce hours, these workers are subject to recurrent layoffs and are at high risk of episodic poverty, stress, and instability in living and childcare arrangements (Acs, 2013).

Worker testimony sheds some light on the difficulty low wage workers face with unpredictable scheduling:

"The amount of hours and days I work changes on a weekly basis so I never know how much my check will be. That means I don't know how much I can contribute to rent and bills, how much food I can buy for my daughter, or whether I can even afford to do laundry that week."

— (Fair Schedules Initiative, 2015, p. 4)

Low wage workers tend to have greater medical needs, both in frequency and severity than other groups. They are often faced with the distressing choice of caring for a loved one and remaining employed: "One mother bemoaned that if her preschool daughter got sick again, she would be fired, and wondered out loud how she would make it through the flu season" (Williams & Haung, 2011).

Beyond the immediate destabilizing effects, contingent employment and unpredictable work scheduling have negative cumulative effects. Over time, shorter job tenures negatively affect career and wage trajectories. Often, these jobs do not provide enough current income, nor are they on-ramps to sustainable careers. As such, it is imperative that workers be allowed to improve their human capital through training and education if they are to become economically self-sufficient in the future.

Store managers are under considerable pressure to contain labor costs to levels that are dictated by the company and exercise discretion on how the available hours are distributed. Ninety-four percent of store managers stated they prefer employees with maximum availability. (Williams & Haung, 2011). This indicates that they seek to hire employees without children, medical needs, or school schedules that may impede full availability (Watson & Swanberg, 2011). A majority of low wage workers (quite reasonably) fear not being hired or having hours cut and therefore conceal or minimize any outside commitments. This dynamic leads to absenteeism and high employee turnover, a cycle that is costly for both workers and firms (Williams & Haung, 2011). There are opportunities for improvements that benefit both parties, which are discussed in the recommendations section below.

## **Macroeconomic Effects**

There is a strong correlation between part-time work and poverty. The U.S. Bureau of Labor Statistics reports that in 2012, 4.2% of those usually employed full-time were classified as poor, compared with 15.5% of part-time workers (U.S. Department of Labor). Part-time hourly wages are frequently lower than full-time pay for equivalent work. The U.S. Government Accountability Office states that contingent workers receive 10.6% less than standard workers (GAO, 2015). Dennis Lockhart, President of the Federal Reserve Bank of Atlanta, has expressed concern that an "elevated number of people working part-time involuntarily is restraining wage growth" (Lockhart, 2015). The International Labour Office states that an abundance of

contingent work serves to "crowd out" regular hiring (International Labour Office, 2015). Low wages may also dissuade potential workers from participating in the labor market.

Lonnie Golden of the Economic Policy Institute explains that income instability "adversely affects not only household consumption but general macroeconomic performance." (Golden, 2015). The Center for American Progress states, "Low wages reduce consumption, and therefore retard economic activity and reduce tax revenue (Summers & Balls, January 2015). Because low-income populations spend a greater percentage of their income, an increase in wages at the low end of the spectrum would have a significant stimulative impact on economic activity.

### **Public Costs**

Many of the 46.7 million people officially counted as poor are working. Over half of all lowincome children in the United States have a parent who works full time, year-round (Skinner, 2012). Hispanic-Latinos and blacks are more than twice as likely as whites and Asians to be among the working poor.

Part time and contingent employment imposes costs to government because these workers often have to rely on the social safety net. Researchers at the Labor Center at UC Berkeley found that federal and state government social programs spend \$152.8 billion annually to support working families. (Jacobs, Perry, & MacGillvary, 2015). Some argue that public support programs enable employers to provide substandard wages and limited hours. This was the rationale behind the proposed legislation, S.B. 1044, which died in the Connecticut senate April, 2015. The bill proposed a tax on employers with more than 500 employees who

pay less than \$15 per hour. The \$1 per 100 employee hours worked was meant to be appropriated to provide social services, including those related to early childhood education, the elderly and disabled persons. Sarah Leberstein, a senior staff lawyer with the National Employment Law Project testified that, "The low-wage business model practiced by many of the largest and most profitable employers in the country not only leaves many working families unable to afford the basics, but also imposes significant costs on the public as a whole" (Leberstein, 2015, p.1).

Michael Strain, from the American Enterprise Institute, contends that market forces set wages, and employers are not solely responsible for providing a living wage to workers. Strain states that "no one who works full time should live in poverty" is a societal goal and therefore any shortfall of wages are appropriately be paid through taxes (Strain, 2015). We explore the symbiotic relationship between low wage employers and the safety net in the next section.

# **Safety Net Considerations**

The Personal Responsibility and Work Opportunity Act (welfare reform), was enacted in 1996 during a period of full employment. Over time, access to the social safety net has become more predicated on work participation. Implicit in this is the assumption that workers have control over how much they work.

For workers, once transfers and work supports are considered, unstable part-time work may be more financially rewarding than low wage regular employment. Absent the opportunity for better wages, it is in the best interest of both workers and employers to continue this symbiosis. Public benefit programs may actually impede the transition to stable employment.

(Acs, 2013). This is one result of welfare policies' determination to "put work first" without regard to the quality of jobs or access to a living wage.

Individual states set requirements for each program, within limitations set by the federal government. The result is a confusing array of reporting and work requirements, coupled with income limitations that can be difficult terrain for recipients to navigate. Policymakers describe benefits "cliffs," where a temporary change in employment can result in the loss of benefits (Acs, 2013). For example, a brief increase in income may result in disqualification for SNAP<sup>9</sup> benefits. Alternatively, a temporary decrease in work hours may result in the loss of subsidized childcare, inhibiting prospects for re-employment. Recipients must then devote time to getting re-qualified that might better be spent looking for employment. This cycling of beneficiaries in and out of support programs, referred to as "churn," is costly for government administrators and can result in food and housing insecurity.

Access to public benefits is increasingly tied to work, while low income workers have less control over when and how much they are able to work. The Employment Instability, Family Well-being, and Social Policy Network (EINet) at the University of Chicago, expressed "concern that the more a program ties assistance to work, the less protection the program provides against employment instability" and that "relatively small and potentially temporary changes in employment and earnings can cause drastic and long-lasting changes" in the receipt of safety net assistance (Hill & Ybarra, 2014, p. 2). Among the general recommendations were to implement a grace period for child care subsidy programs to allow for re-employment, and to

<sup>&</sup>lt;sup>9</sup> Supplemental Nutrition Assistance Program, formerly "food stamps."

reduce abrupt changes in eligibility for assistance by allowing for some wage growth during participation in assistance programs. (Hill & Ybarra, 2014, p. 3).

The Center for Law and Social Policy recommends providing add-on activities that can qualify when work hours temporarily fall short of requirements, offering "on-demand" phone interviews that can accommodate difficult schedules, and lengthen verification periods. These policies are designed to accommodate smoother transitions in and out of the workforce and are better suited to today's volatile labor market (Ben-Ishai, 2015).

## **Fair Scheduling Legislation**

Local and state policymakers have been taking the lead on issues confronting low wage workers. In 2015, California, Connecticut, Illinois, Indiana, Maryland, Massachusetts, Minnesota, New York and Oregon have introduced bills to address "difficult" scheduling practices. On the federal level, the Schedules that Work Act H.R. 5159/S.1772 mirrors many of the provisions in the San Francisco Retail Workers' Bill of Rights, which took effect January 1, 2015. Since part-time workers typically work in businesses where more than three-quarters of the entire workforce are also employed part-time (Van Horn & Zukin, 2015), targeted solutions may be effective. The San Francisco bill applies to "formula retailers," those that have 11 or more stores nationwide and who have at least 20 employees in the city of San Francisco. This

takes into account the fact that small employers may require more flexible arrangements while protecting a substantial portion of workers. The provisions are as follows: 10

Advance Notice of Schedules – Two weeks advance notice of schedules, with one hour of pay with changes made less than seven days in advance and seven hours of pay if changes are made less than 24 hours in advance.

**Promotion of Full-Time Work** – Additional available hours of work must be offered to existing employees before hiring additional outside workers.

**Limits of On-Call Shifts** – The worker is entitled to 4 hours of pay regardless of whether they are sent home early or called out at the last minute

Part-time Parity – Part-time workers must receive equal pay, earned time off and promotional opportunities

**Prohibits employers from requiring open availability** in order to achieve full-time status.

These legislative actions raise the fixed cost of labor, thus reducing the incentive to cut hours. Local movements are developing and testing solutions that can be adopted on a national level.

## **Private Market Approaches**

The voluntary implementation of flexible workplace arrangements by employers is popular with policymakers and businesses. The issue is that "work-life balance" efforts usually lead to marginal improvements for workers who are already valued. Susan Lambert points out that in a context of scarce work hours, "right to request" schedules may threaten the ability of low wage workers to make a living. Other company policies that can benefit both workers and

<sup>10</sup> Adapted from National Women's Law Center Fact Sheet: Recently Introduced and Enacted State and Local Fair Scheduling Legislation, May 2015. Note that these provisions are not in effect if any employee initiates schedule changes.

businesses are: cross training of employees, internal promotion and hiring "floaters" to fill unexpected gaps in coverage.

The "just-in-time" work scheduling strategy, based on an inventory model from manufacturing, is predicated on the idea that workers are interchangeable parts of the operation. Store managers have to contend with intense pressure to budget labor hours, along with a high level of absenteeism and turnover. Seventy-nine percent of managers said they give more hours to associates with open availability (Williams & Haung, 2011). Workers report having hours cut following scheduling requests.

According to Zeynep Ton, a professor at MIT's Sloan School of Management, labor is better viewed as a tool to drive sales, than a cost to be cut. Ton found a positive correlation of employee investment and profitability in retail and that competitive pricing is compatible with higher wages, when process improvements are implemented. In explaining why these methods are not used more often, she explains that while the savings from cutting hours are immediately visible, the business advantages to worker investment are indirect and long-term. Instead, when sales fall, labor often is cut, leading to vicious cycle that creates instability for workers and impairs business growth. (Ton, 2012).

Researchers have found that demand is not as unpredictable as business leaders commonly believe (Ton, 2012). 11 This "hidden stability" of core hours in many businesses can be exploited to minimize fluctuations (Lambert, Haley-Lock, & Henly 2010). Technology has

<sup>&</sup>lt;sup>11</sup> "A striking and unexpected research finding when scholars studied just-in-time schedules in the retail sector was that for nearly two-thirds of participating stores, 80% or more of the hours stayed the same, week in, week out" (Joan C. Williams, 2011).

gotten more affordable and so the scheduling software that has contributed to instability could be re-purposed to take employees' needs into account, reducing turnover and improving customer service.

This would require investment in reconfiguring the software and formalizing internal policies, accompanied by a sustained and clear message that this initiative has priority at the company's executive level. Any change of corporate policies, absent firm-wide reinforcement, would likely prove to be purely symbolic and of little utility to workers.

There are companies that succeed in being profitable without minimizing wages and dynamically reducing hours. These practices are not an inevitable condition of business success. A fixation with statistical modeling may be getting in the way of improvements that would help both workers and profits.

# A Disconnected Economy

During the 1940s through the 1970s, top executives were recruited from within their industry and acted as stewards in the long term interest of their firm. Today, the expertise of most top executives is financial management, and their focus is quarterly earnings reports, on which their compensation largely depends. 12 The function of capital markets has been inverted, from provider of capital to extractor (Galston & Kamarck, 2015). This is a major cause of wage

<sup>12</sup> Seventy percent of CEO compensation now stock based.

stagnation and the slowing of the U.S. economy. The share of business income that has been distributed in wages has dramatically reduced since 1979 (Gould, 2014).<sup>13</sup>

The increased utilization of NSFEs has coincided with the decline in unionization for private sector employees to 6.6%, down from over 25% in 1979. In late 1978, executive compensation was around 30 times the average workers' salary. By 2013, executive compensation had risen to nearly 300 times the average salary (Davis & Mishel, 2014). Stock based executive compensation has created the incentive to devote company resources to improve stock prices in the short term. As a result, corporate investments in product and service expansion have been reduced in favor of stock buybacks and dividend payouts (Mason, 2015), which don't add real value to the firm. Many firms are taking on debt to fund dividends and stock buybacks, rather than invest in growth strategies, such as the development of new products, workforce training and wages. (Galston & Kamarck, 2015).

In order to devote funds to stock repurchases, corporate leaders report that they often don't invest in development even if there are robust profits to be made in the longer term. This form of corporate governance has been labeled "short-termism" and is considered to be destructive for both firms and the macro-economy. In 2014, Larry Fink, CEO of BlackRock, one of the largest private equity firms, sent a letter to the leaders of the S&P 500 firms, stating a concern that "too many companies have cut capital expenditures and even increased debt to boost dividends and increase share buybacks," which can "jeopardize a company's ability to

<sup>&</sup>lt;sup>13</sup> "Wages as a share of business income have been declining since the mid-1970's. From 1948 to 1979, productivity rose 108.1%, while hourly compensation increased 93.4%; in sharp contrast, from 1979 to 2013, productivity rose 64.9%, and hourly compensation rose a mere 8.0%" (Gould, 2014). Economic Policy Institute http://www.epi.org/publication/why-americas-workers-needfaster-wage-growth/

generate sustainable long term returns" (Fink, 2014). The Center for Effective Public Management at Brookings, declares, "collective myopia is the societal disease of our time," and William Lazonick, Director of the Center for Industrial Competitiveness at the University of Massachusetts, Lowell states, "It is the failure of U.S. businesses to invest sufficiently in innovation that has undermined the prosperity of the U.S. economy." (Lazonick, 201, p. 899)

Among the recommended policy changes are to limit stock compensation and impose a period of time that stocks must be held, disallow the tax deduction for interest on debt that is used to repurchase stock, and tax trading gains at a higher rate (Galston & Kamarck, 2015; Lazonick, 2012; Mason, 2013)

#### Conclusion

The problems created by unstable schedules, specifically, can be addressed through a combination of corporate policies, labor regulation and adjustments to the social safety net. However, these are symptomatic approaches to our most essential challenge — recapturing our economy for the restoration of a more broadly shared prosperity.

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 ${\it Please \ direct \ any \ questions \ or \ comments \ to \ taramarlowe@mac.com}$