

REPORT

HOW STATE SPENDING CAN CREATE A GOOD JOBS ECONOMY

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STATE INNOVATION EXCHANGE



BACKGROUND

State governments support millions of jobs across our economy by spending hundreds of billions of public dollars to purchase goods and services and grow local economies.

Yet jobs created through this spending too often pay poverty wages, have poor working conditions, or do little to ensure residents benefit. Moreover, women as well as Black and Latino workers are overrepresented in many contracted service industries where low wages and poor benefits are commonplace, while these workers are often underrepresented in publicly supported industries with higher standards, such as construction and manufacturing. These bad jobs not only harm workers but also undermine the quality of public services, undermine local communities, and result in significant hidden costs for the public.

But there are solutions to these challenges. State policymakers, in collaboration with workers, organizers, and advocates, are at the forefront of innovative policies to improve the lives of working people by raising standards for government spending

that funds jobs across all sectors. Strong job quality standards require companies receiving government support ranging from contracts and grants to loans and tax credits to pay workers market wages and benefits, respect workplace laws and demonstrate responsibility, and create avenues of opportunity for workers from all walks of life. When properly designed and deployed, these programs provide workers and communities a seat at the table in determining project standards and ensuring spending recipients live up to their commitments.



RECOMMENDATIONS

Many states have adopted some quality standards for jobs funded through direct contracts. Governments can also leverage public money as a tool to lift up disadvantaged communities and help chip away at structural disparities. Policymakers should collaborate with workers to design and adopt the best practices below and extend their coverage to loans, grants, tax incentives, and other government spending and permitting programs.

RECOMMENDATION #1

CAREFULLY EVALUATE DECISIONS TO CONTRACT OUT PUBLIC WORK

Excessive use of contracting by states and localities weakens the ability of government officials to oversee taxpayer-funded work, but few governments do enough to limit the practice sufficiently, particularly among core government functions, or to ensure strong public oversight. State and local governments seeking to protect the public and workers and to promote quality services should require a careful review of decisions before

contracting out government work to the private sector. Government agencies should adopt consistent procedures for determining whether it is in the public's best interest to contract out work, as well as ensure that when privatization decisions are made, the process allows for an accurate analysis of the benefits and costs.

In Practice:

Oregon requires a written cost analysis before contracting out services valued at more than \$250,000. The law requires that state and local agencies demonstrate that contracting out work would reduce costs more than using its existing personnel and resources, unless the agency “reasonably determines in writing” that using government personnel is not feasible. Government agencies are also prohibited from privatizing services if the cost analysis demonstrates that the lower wages and benefits paid by the contractor are the “sole reason” why contracting out would be cheaper.

RECOMMENDATION #2

EVALUATE CONTRACTORS FOR RESPONSIBILITY

Excessive use of contracting by State governments seeking to improve the quality of their contractor pools are increasingly instituting more rigorous evaluation of prospective vendors. Governments have adopted these laws to better identify companies with long track records of committing fraud and

other legal violations, wasting taxpayer funds, and lacking the proper experience and licensure. This includes companies with histories of violating workplace laws and important regulatory protections.

In Practice:

Connecticut requires companies to prequalify before bidding on state and local public works projects. The process includes a review of a company's integrity, work experience, personnel qualifications, financial condition, and safety record and standards. Online prequalification forms require companies to report on their histories of legal compliance, including underpayment and nonpayment of wages and benefits, and safety records, covering both private and public sector work history. New York proposed legislation that would make public lists of debarred contractors. Finally, advocates in Indiana and Illinois have been increasingly winning local responsible bidder standards that also incorporate a review of whether a bidder has an active participation in a federally or state-approved registered apprenticeship program and submission of certified payroll records.

RECOMMENDATION #3

ADOPT WAGE AND BENEFIT STANDARDS

Contractor wage standards include living wage and prevailing wage laws. Living wage standards require recipients of government support or heavily regulated industries to pay their workers nonpoverty wages and, at best, include minimum benefit standards requirements. Prevailing wage laws set wage and benefit rates based on market conditions, which are frequently higher than across-the-board minimum standards. Importantly, prevailing wage

laws establish a floor for government-funded work so that public contracting does not depress industry standards or discourage high-road companies from bidding on public contracts. While many states have established wage standards that cover some types of publicly supported work, most could extend these protections to more workers.

In Practice:

Michigan is the most recent state to adopt a construction prevailing wage law. In New Jersey, the state legislature and several local jurisdictions have adopted wage standards that cover a range of projects receiving public support and for workers employed across several sectors, including public works, building services, and airports. The state requires the payment of construction prevailing wages for work undertaken with the support of various financial assistance programs administered or provided by the New Jersey Economic Development Authority, including loans, loan guarantees, grants, incentives, and tax exemptions. The New Jersey legislature also enacted the Healthy Terminals Act in 2021, establishing a “standard benefits supplemental rate” towards the cost of minimum essential coverage under an eligible employer-sponsored health care plan.

RECOMMENDATION #4

EXPAND EQUITABLE ACCESS TO HIGH-QUALITY JOBS

For too long, women, Black workers, workers of color, and other historically marginalized groups have been excluded from good construction and manufacturing opportunities. Registered apprenticeship, often used in the construction sector, can be a pathway into these high-quality jobs that can help combat industrial segregation by combining classroom instruction with paid on-the-job training. Research shows that completion of an apprenticeship in the construction sector has lifetime earnings benefits commensurate with completion of a four-year degree. By adopting targeted-hire and apprenticeship utilization standards or goals that are properly monitored and enforced by community stakeholders, policymakers can help connect local workers from all walks of life to high-quality jobs and training

opportunities on publicly supported projects—and benefit local contractors and labor markets by growing a well-qualified workforce.

Similarly, communities are implementing access and opportunity committees (AOCs) on large publicly supported projects that convene stakeholders to monitor progress on hiring goals for construction projects. AOCs bring together labor, community, employer, government, and others to review reported, demographically disaggregated data on hours worked; identify contractors who are not meeting set goals; and make recommendations to ameliorate the status quo.

In Practice:

States are helping expand the use of apprenticeship by requiring that a significant portion of work on publicly supported construction projects be performed by participants in a federal- or state-registered apprenticeship program. For example, Washington State requires that no less than 15 percent of the labor hours on large state public works projects be performed by apprentices, and Nevada requires that apprentices supply 10 percent of labor hours for vertical construction.

Seattle's Priority Hire program connects people living in economically distressed communities to city construction projects. The program contains a blend of activities and goals related to both targeted- and local-hire programs and has been successful in getting jobs and public dollars to disadvantaged communities. Since 2013, workers in identified economically distressed areas earned an additional \$46.9 million due to the city's Priority Hire program.

The U.S. Department of Labor published a fact sheet on AOCs established in Massachusetts; Minneapolis; Cleveland; and Oakland, California, all of which were developed as part of a project labor agreement. While AOCs have been used primarily on construction projects, similar ongoing oversight mechanisms could help support access and job quality in other government-supported sectors.



RECOMMENDATION #5

REQUIRE PROJECT LABOR AGREEMENTS AND COMMUNITY WORKFORCE AGREEMENTS

Project labor agreements (PLAs) and community workforce agreements (CWAs) are powerful tools to help ensure a consistent supply of high-quality labor and avoid costly work stoppages due to labor disputes in the construction sector, meaning that projects can be delivered on time and on budget and are of high quality. The

agreements also improve job quality by creating enforceable standards that go beyond statutory minimums and can ensure that the investments benefit local workers and business owners.

In Practice:

Maryland Governor Wes Moore signed an order in 2023 to encourage the growth of apprenticeship training programs and expand the use of project labor agreements on large infrastructure projects, citing the measure's ability to support "timely and efficient" completion of projects by maintaining a skilled workforce.

RECOMMENDATION #6

ADOPT INCENTIVES TO RAISE WORKPLACE STANDARDS ABOVE THE LEGAL FLOOR

Some governments have developed ways in the contractor selection process to consider employers that create good jobs by evaluating applicants on their ability to meet job quality and equity goals across publicly supported work in various sectors. In this way, baseline requirements—such as wage standards and targeted hiring—can set the floor, while incentives for higher labor practices can help encourage companies to raise standards further.

Doing so not only supports sustainable local economic development but also helps guarantee successful public investments by supporting retention of the skilled workforce necessary to support high-quality public works and services.

In Practice:

Several cities have enacted incentives on government spending to raise workplace standards above the legal floor, ranging from incentives to provide specific benefits such as paid leave, medical benefits, and adequate assurances of labor peace to evaluation of bidders' detailed plans for the number and type of jobs created and retained as well as details on pay, benefits, career pathways, and access.

In addition, the federal government recently embarked on the most significant effort to date to incorporate job quality incentives across various spending programs. The Inflation Reduction Act, the IIJA, and the CHIPS and Science Act are awarding billions of dollars in new funds that incentivize state, local, and private sector applicants to answer critical questions on how the jobs created through the spending will support equity and job quality.

IMPACTS

RESEARCH SHOWS THAT THESE
TYPES OF POLICIES:

01

Support good wages and benefits. Research consistently shows that wage standards help workers earn middle-class incomes, expand health insurance coverage, and increase the share of workers with pension plans. In lower-paying occupations, such as janitorial or food service, standards can support pay rates well above legislated minimums.

02

Help increase access and close racial pay gaps. According to one analysis, by instituting a construction wage standard, a state could shrink the income gap between white and Black construction workers by roughly 7 percentage points. Targeted-hire provisions can help increase recruitment of workers from economically disadvantaged communities in the construction industry. Moreover, job quality standards should also be applied to the service sector, where many jobs are held by women and Black, Latino, and immigrant workers.

03

Promote quality work and produce good value for the public. Spending standards boost worker productivity, reduce injury rates, increase apprenticeship training, decrease turnover, and improve service quality. Because they ensure a stable, well-qualified workforce, prevailing wage laws produce good value for taxpayers. Research shows that these laws generate positive impacts for public budgets by increasing the amount of work performed by local contractors, thus reducing the leakage of local dollars, boosting state tax revenues, and making workers less reliant on government programs.

04

Level the playing field for high-road employers.

Attaching job quality standards to government spending prevents low-road businesses from undercutting high-road employers committed to paying decent wages and benefits in bid competitions. Providing employers with a clear guideline for what is an acceptable rate of compensation signals to high-road employers that they can compete for and win government contracts. Studies show that by raising standards for workers, governments can encourage more companies to bid for contracts.

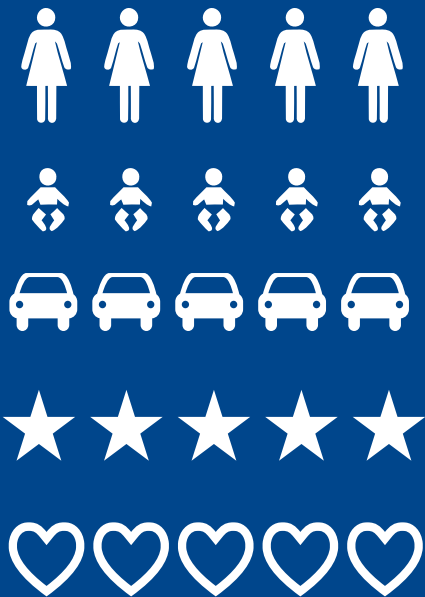
05

Protect and extend union workers' gains.

Strong wage and benefit standards prevent low-road contractors from undermining higher standards that workers attain through collective bargaining. Unionized workers and employers gain stability knowing that low-road contractors will not constantly undercut labor standards negotiated through private sector bargaining. Moreover, because they extend market wages and benefits—which at times reflect collectively bargained rates—to all covered workers, prevailing wage laws are a key support for promoting high sectoral standards. Standardizing compensation across an industry leads to higher wages and benefits for more workers, moderates economic inequality, and reduces pay gaps across race and gender.



Protecting Local Freedoms in Collaboration with Local Leaders



Many of the solutions discussed in this brief are innovations that began at the municipal level. That's why it's important to protect against abusive preemption policies designed to curtail local innovation. Preemption occurs when a higher level of government (such as a state legislature) restricts or withdraws the authority of a lower level of government (such as a city council) to act on a particular issue. Preemption itself is a neutral policy tool; it can be used to build a good jobs economy or deny workers fair wages, good benefits, and basic freedoms. For example, state lawmakers use preemption to advance constituents' well-being by establishing minimum state standards or "floors" for local communities to build on – to make stronger in ways that respond to local needs. However, for decades, large corporations and the trade associations who represent them such as the Chamber of Commerce, push for abusive preemption policies by passing statewide bans on many of the innovative policy solutions identified in this report. Be wary of preemption proposals in your state legislature– and make sure to connect with those communities and constituencies impacted by preemption policies when those policies are introduced.

ADDITIONAL RESOURCES

01

Government on Workers' Side: How State and Local Policymakers and Advocates Can Raise Standards for Publicly Supported Work, Center for American Progress

02

4 Job Quality Questions All Applicants for New Federal Funds Should Answer, Center for American Progress

03

Harnessing the Power of Procurement, In the Public Interest

04

EARN Industrial Policy Resource Library, Economic Policy Institute

05

Illinois Economic Policy Institute, research organization that studies the positive impacts of contracting labor standards

06

Good Jobs Initiative: Access and Opportunity Committees, U.S. Department of Labor

*How State Spending
Can Create a Good
Jobs Economy*



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