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A Future of Good Jobs? America's Challenge in the Global Economy

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A Future of Good Jobs? America's Challenge in the Global Economy

Can the U.S. economy generate a healthy growth of "good" jobs— jobs that will ensure a steady improvement in the standard of living for the middle class and that will offer a way out of poverty for low-income Americans? This is the fundamental economic policy challenge facing our country in an age of intense global competition.

By some measures, the U.S. economy is performing well. GDP and productivity growth are high and unemployment is low. Beneath these aggregate statistics, however, are signs that those at the bottom and a growing number in the middle are being left behind. While rapid globalization and technological progress have provided American consumers with better and cheaper goods and services, they also have been associated with problems for American workers: job dislocation, stagnant or declining real wages and benefits, and reduced job security. The gains from recent economic growth have accrued primarily to those at the very top of the income distribution, as evidenced by increased U.S. inequality.

In the forthcoming book *A Future of Good Jobs? America's Challenge in the Global Economy* (expected publication date April 2008), leading policy analysts frame the major challenges facing U.S. labor policy:

- improving the skills of American workers so that they can better compete in a global economy;
- addressing the crisis in our system of employer-sponsored health insurance;

- minimizing the effects of dislocation due to immigration and trade;
- removing barriers to employment for older workers;
- improving the quality of jobs for low-wage workers without harming the competitiveness of American companies; and
- addressing the serious employment barriers of the disadvantaged.

Each chapter in this book tackles one of these policy challenges, identifying the key problems, critiquing current policies, and offering alternative policies. Collectively, the chapters offer a road map for future labor market policy. The book is based on a conference sponsored by the Upjohn Institute in Washington, D.C., in June 2007 to mark the 75th anniversary of the W.E. Upjohn Unemployment Trustee Corporation.

Signs of Trouble for U.S. Workers

The difficulty that the United States will have in generating good jobs for all Americans is readily apparent in problems already facing middle-class and low-wage workers:

Growing inequality. Income inequality has widened, with wages for the middle and lower classes rising far less than the rate of productivity growth and most of the gains going to the very wealthiest households.

Declining coverage and generosity of benefits. The fraction of the nonelderly population with employer-sponsored health insurance has dropped sharply,

while the cost to employees with employer-sponsored health plans has risen sharply. Companies' shift from traditional defined-benefit to defined-contribution retirement plans shifts investment risks to workers and typically is associated with reduced benefits.

Less job security. Long-term employment with a single company is becoming less common. American workers are more likely to experience dislocation, in part because of trade, and are more likely to have to make a late-in-life job change.

Sharp drop in employment among less-educated men. The employment rates of men of all ages with a high school education or less have declined precipitously since the 1980s.

Forces Shaping the American Workplace

These problems have multiple causes. Widespread involvement of large institutional investors in the stock market beginning in the 1980s led to greater focus on lowering costs to boost short-term profits, resulting in downward pressure on compensation and reduced job security.

Rapid technological advances have also played an important role. New health technologies have reduced mortality and improved the quality of life. But these advances have greatly increased the cost of health care and placed severe strains on our employer-financed system of health insurance.

Economists generally believe that computer technology introduced into the workplace in the 1980s and 1990s has favored more-skilled workers and helps explain growing inequality. However, the development of the Internet and other communications technologies opens up the possibility of offshore outsourcing many service jobs, potentially affecting American workers at all skill levels in the future.

Globalization reinforces pressures from financial markets and new technology. Trade agreements, lower transportation and communication costs, and political and economic reform in places like China and Eastern Europe



Steven Raphael, presenter, and Jodie T. Allen, moderator

have enabled a significant expansion of international trade. Those factors, along with financial market pressures on U.S. companies to lower costs through offshore outsourcing, have led to a ballooning U.S. trade deficit. Although Americans broadly benefit from lower-priced imports, the growth of the global economy has led to substantial worker dislocation and placed further downward pressure on many workers' wages.

While these economic forces are placing strains on middle-class and low-wage workers, institutions that historically have mitigated income inequality have been significantly weakened. Most notable are the decline in the value of the minimum wage and the decline in union representation.

Policy Action Plan

To address the problems of inequality and pressures from globalization, the contributors to this volume recommend several key reforms of labor market policy.

• Reform the Delivery of Education and Training

Virtually all agree that improving the skills of our workforce is critical to competing in a global economy. Yet Robert Lerman argues that current federal and state policies have an overly narrow focus on conventional academic credentials. Lerman urges the development of education curricula that are more closely tied to workplace

needs, that meet diverse learning styles of students, and that expand support for vocational training in high schools. High school students should be able to achieve occupational qualifications by combining school instruction with well-structured work-based learning. The K-12 system should be rewarded for raising noncognitive skills and occupational skills, even

if some students do not complete all requirements for admission to a four-year college. The federal budget allocation for apprenticeship programs should be increased. Finally, Lerman recommends changes in financial accounting rules so that firms count their workforces' human capital as assets and thereby are encouraged to invest more in worker training.

• Reform Health Insurance

Katherine Swartz explains why the current system of employer-sponsored health insurance is inefficient and is leading to a downward spiral of coverage in our country. She offers a road map for universal coverage based on three principles: 1) everyone should enroll in a health plan and pay a minimum amount, 2) additional premiums should be collected from individuals in proportion to family income, and 3) companies should contribute to financing the insurance. The system proposed by Swartz would preserve a central role for private health insurance, and she points to health insurance systems in the



Wendell Primus, moderator, and Katherine Swartz, presenter

Netherlands, Germany, and Switzerland as potential models. A reformed system could avoid inefficiencies that result from lack of insurance coverage, increase productivity by allowing individuals to switch jobs without losing coverage, increase competitiveness of U.S. companies in the global market, and reduce perverse incentives employers have to contract out work or avoid hiring older workers.

• **Expand and Revamp Return-to-Work Programs**

In their respective chapters, Lori Kletzer and Katharine Abraham and Susan Houseman present proposals for expanded employment and training programs, wage insurance programs, and better targeting of government programs to the needs of dislocated and older workers. Kletzer recommends expanding the Trade Adjustment Assistance program, currently limited to manufacturing workers, to include displaced service sector workers and to include additional monies for training. The wage-loss insurance program, started in 2002, provides trade-displaced workers over age 50 with up to half the difference between their old and new wages. Kletzer calls for evaluating this program, as stipulated by Congress, and possibly extending the program to workers in their 40s. Echoing the call for program evaluation, Abraham and Houseman emphasize the need to evaluate promising older worker initiatives being taken at the state level—including placing older-worker specialists in employment centers, instituting outreach for seniors, and providing older workers with basic computer skills—to determine their effectiveness and suitability for expansion at the national level.

• **Implement Special Policies for Low-Skilled Workers**

The growth in inequality has hit low-skilled workers hardest. Paul Osterman calls for a two-pronged approach to improving the quality of jobs at the low end. The first is improvement in labor standards: continued increases in

minimum wages, protection for unions and other forms of worker organization, and tax incentives that promote the development of good jobs. The second strategy involves programmatic assistance to employers to encourage job upgrading. Osterman proposes that the U.S. Department of Labor establish a “Low Wage Challenge Fund” to help employers improve their workers’ skills and thereby the quality of jobs. The Low Wage Challenge Fund would also provide matching funds to states for customized training programs oriented toward the low-skill workforce and provide funding to community colleges to increase their involvement with employers and the low-skill workforce.

To boost earnings of the least skilled workers, Steven Raphael proposes expansion of the successful Earned Income Tax Credit. Specifically, Raphael proposes an expanded EITC for childless adults with liberalization of benefits for the poorest married couples.

The rapid rise in incarceration rates and drop in employment rates of low-skilled men require special policies to bring this growing underclass out of the cycle of crime and poverty and into productive employment. In addition to an expanded EITC, Raphael advocates policies to reduce barriers to employment for those with criminal records, including expunging selected criminal records after a period of time and funding training intermediaries to prepare ex-inmates for employment.

Conclusion

The policies advocated in this book should be viewed as investments that will pay off in a number of ways: for most workers, in the form of higher wages, more secure health care benefits, and greater ability to transition to new jobs; for the public at large, in the form of reduced costs for social safety net programs and crime and increased effectiveness of our health care system. These policies would help the United States to compete in the global economy and provide a future of good jobs for all Americans.

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