Working in the Twenty-First Century

Policies for Economic Grow
Through Training,
Opportunity, and Education

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SERIES EDITOR'S FOREWORD

The employment relationship, for most people, is the most important economic relationship they will have. It is the major source of income as well as benefits. Public programs, such as Social Security, are tied to the employment relationship. Unlike economic relationships in many other markets, the employment relationship has not been deregulated. Public policies abound in the labor market. Today, there are laws dealing with unions, with the provision of benefit programs, with minimum wages, with safety and health on the job, with retirement, and so on. Many of these laws have been on the books for decades.

But as David Levine points out, the employment relationship is undergoing change. The wage distribution is shifting toward the more skilled and better educated. Employers nowadays complain of skilled-labor shortages; in some cases they turn to Congress and ask for immigration rules to be relaxed so that skilled workers can be obtained from abroad. But despite the shortages in some occupations, real wages have been relatively stagnant since the early 1970s.

Are we condemned to a permanent wide divide between the top and bottom of the wage scale? Can we produce the skills needed for the future, or must we inevitably rely on foreign labor sources to meet those needs? Will our labor regulatory system remain focused on labor markets of the past, dominated by large bureaucratic firms? Or can we adapt to employer demands for more "flexibility" without undermining past gains in working conditions? In short, can we make our economy work better for our employees, their dependents, and—indeed—for society as a whole?

Levine argues that schools and training will be major components in a successful adjustment of the American labor market to the new realities. Other government policies must also change. Efforts must be made to improve labor market opportunities for those who have previously remained outside the economic mainstream.

One area in which the United States stands out as a success, especially when compared with developed countries in Europe, is job creation. European countries have tended to see improvements in real wages but stagnation in job creation and difficulties in the transition to work among the young. One view is that American job growth is in fact due to wage stagnation and European job stagnation is due to its wage trends. What Levine would like to achieve is continued job creation in the United States but with a reduction in social ills. In effect, he would like to see the best of both sides of the Atlantic present in the American workforce of the future.

Too big a challenge? Levine is optimistic that improvements can be made, even if perfection cannot be achieved. Government policy makers must pay more attention to incentives and mis-incentives they create. More consideration must be given to overall policy rather than the one-ill-at-a-time approach that has been traditional. Government interventions must adopt a "customer" sensitivity. And educational policy is one of the most important programs government operates. Clearly, says Levine, major revamps of the incentives of the K–12 system will be needed. And post-high school systems of training and skill acquisition will be essential. Such an approach will allow adjustment to the increased job mobility that is likely to be characteristic of the future workforce.

Just as education needs important reforms, so too does U.S. policy toward job safety, housing, health care, disability, and other social concerns. Throughout his book, Levine offers concrete suggestions for improvement, drawing on available research and approaches that appear promising. Quick fixes, magic bullets, and panaceas are not on offer. But continuous improvement in what we have is proposed. Whether you agree with a particular suggestion or not, Levine's careful development of problem and solution will provoke and inform

Daniel J.B. Mitchell

ACKNOWLEDGMENTS

Many of these ideas were developed while I worked at the Council of Economic Advisers. There I was privileged to work most closely with Maya Federman, who contributed many of the ideas found here. I had excellent colleagues such as Bill Dickens, Tom Kane, Mark Mazur, and Halsey Rogers, and outstanding bosses Laura D'Andrea Tyson, Martin Baily, and Joseph Stiglitz. On disability I worked closely with Susan Daniels, Marie Strahan, and Jane West; on workplace and school regulations with Meghan Kelly, Gaynor McCowan, and Mike Schmidt; on education with Barry White; on reinventing government with Bob Knisely; on public housing with Steve Redburn, Michael Stegman, and Marc Weiss; on work and technology policy with Marie-Louise Caravatti, Frank Emspak, Henry Kelly, and Scott Ralls; on the statistical system with Paul Bugg, Connie Dunham, David Hirschberg, and Katherine Wallman; on urban and youth policy with Sheryl Cashin, Bo Cutter Jr., Paul Dimond, Marcus Stanley, and Judy Wurtzel; and on labor market policy in general with Alan Krueger. I also learned a lot during my six months at the Department of Labor working on workplace issues with Marty Manley, Rob Portman, Jonathan Low, and the staff of the short-lived Office of the American Workplace.

The discussion of the automobile industry draws heavily on many conversations and several coauthored articles with Susan Helper. I have also drawn directly from works coauthored with Brad DeLong, Maya Federman, David Finegold, Thesia Garner, John Greenlees, John Kiely, Duane McGough, Marilyn McNillen, and Kathleen Short. Large sections of chapters 2, 3, and 5 were drawn from chapter 5 of the 1994 *Economic Report of the President*. Although I was the primary author of that chapter, it reflects a collaboration among many at the Council and at several federal agencies.

In short, many of the words here were, in fact, penned by others. I am pleased to share credit for any good ideas with my colleagues. At the same time, many of these colleagues disagreed, sometimes vehemently, with proposals in this volume. Sadly, I retain responsibility for remaining errors. (I leave it to each reader to decide which ideas fall in each category.)

In addition to comments from these coauthors, I received many helpful comments from Carol Chapman, Amanda Datnow, Mark Gilkey, Kara Hartnett, Beth Levine, Daniel Levine, Nancy Levine, Jonathan Leonard, Eliot Mason, Dan Mitchell, Gary Painter, Siobhan Reilly, David Stern, and George Strauss. Brian Fulfrost helped with the figures. Sarah Bales, Yamile Slebi, and Jimmy Torrez made many suggestions and tracked down a slew of needed facts and references. Students in my 1996 Industrial Relations class read large portions of the book and made many helpful comments. I very much appreciate the assistance of all of these students, friends, and colleagues. I am grateful for the financial support from the Institute of Industrial Relations at U.C. Berkeley and from the Sloan Foundation that helped support this research.

Finally, I must thank Jeremy Elliot Levine. I began the first draft of this book the same month Vicki and I began him. Nine months later I raced to finish a rough draft of the manuscript before his arrival on this planet. I very much appreciate his (barely) holding off arriving until this could be sent to the publisher.

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INTRODUCTION

Forty years ago, American schools, businesses, and governments all worked more or less the same way: they were rigidly controlled hierarchies. Most Americans attended boring and rigid schools that prepared them to work at boring and rigid jobs. When Americans needed government services, they got them from rigid government agencies. Schools, businesses, and governments all operated in a machinelike fashion to produce a standard output—whether the "output" was a washing machine from a factory, a semiskilled employee from a school, or a Social Security check from the government.

This production method—essentially an extension of Henry Ford's assembly line—helped raise productivity and standards of living. Schools taught what businesses wanted: punctuality, reliability, and obedience—the virtues of a machine. Businesses put those qualities to work. And government followed suit. Today, however, our major economic challenge is no longer how to produce large quantities of highly standardized goods. Today's trend is away from standard products and toward both high-quality services and customized products. In today's economy, semiskilled and unskilled labor are less valuable. Today's economy needs a different kind of worker—and it isn't getting it. Today's economy also needs a different kind of business and a different kind of government—and it isn't getting enough of those, either.

The result is an economy that has plateaued. Productivity and average living standards are growing much less rapidly than a generation ago. Coupled with low rates of productivity growth, we have high levels of social and economic problems such as child poverty and inequality. Furthermore, businesses aren't very happy with the quality of employees that they get, and employees aren't very happy with the businesses that they work for. And of course nobody's happy with the government.

This volume relates many of our nation's social and economic problems to the combination of these three rigid systems (school, business, and government) and how they reinforce each other. Conversely, this volume shows that these problems are solvable. We can have better schools, better businesses, and better government. To get these desired improvements, we need more flexible businesses that are responsible more to the customer and less to the hierarchy. We must increase accountability to the "customer," whether that customer is receiving a product from a business, an education from a school, or a service from the government.

America at Midcentury

A scant forty years ago, Ford, Chrysler, and General Motors were among the most confident, successful, and admired companies in the world. Their market dominance was based on their manufacturing prowess and their leadership in productivity and quality.

The ideal for a 1950s family was a mother at home and a father at work. Unfortunately, the father's job was often uninteresting: in 1950, 60 percent of jobs were classified as unskilled. The management writings of the time emphasized the efficiency of large hierarchies. In these rigid structures, every worker (and many managers) largely just followed orders and tried to fit in. Moreover, the rigidities of the workplace were repeated in the rigid roles for women, blacks, and other minorities.

On the good side, productivity rose steadily and the fruits of the higher productivity were widely shared. Even regimented jobs such as assembling automobiles provided decent pay. Thus, median family income doubled (after converting into constant 1992 dollars) from $19,000 in 1947 to $39,000 in 1973. Moreover, if the father of this idealized family was a manager or professional, he probably expected that he would have a job for life.

Government at Midcentury

The New Deal and World War II brought government programs a level of legitimacy that was rare in U.S. history. Government policies to make labor markets work better were designed for an idealized version of this economy. For example, employment policy assumed implicitly that health insurance and pensions would be provided by large, stable employers—although such policies remained rare even into the 1950s.

In government, as in the successful businesses of the day, hierarchy was the rule. The New Deal had spawned a set of major social and labor-market programs, such as unemployment insurance, job training, and a small program to give cash grants to widows that evolved into Aid to Families with Dependent Children (AFDC). Most of these programs were run by complex partnerships of federal, state, and local agencies. Typically the federal government gave directions with books of rules and regulations, state governments transmitted those directions and added on further rules, and local offices administered the hundreds of programs.

America at Century's End

The fathers who worked during the 1950s have largely now retired. Their sons and grandsons, as well as their daughters and granddaughters, are working in an economy very different from the economy described above.

Ford and Chrysler have each almost gone out of business (before successful rebirths). The defeated nations that America aided in the 1950s now rival the United States in terms of living standards and technology. Within the United States, productivity growth has slowed to a trickle.

Thus, the typical family's income has barely budged since the early 1970s. (If median family income had continued to grow at the 1949–73 rate, it would have almost doubled again, growing to more than $70,000.)

Moreover, the productivity growth that remains is no longer evenly shared (Figure 1.1). Although all portions of the income distribution benefited from growth in the generation after World War II, even the much lower benefits of growth have not been enjoyed by the less advantaged in the last quarter century.

While even in the 1950s most employees had insecure jobs, by the 1990s perceptions of insecurity now pervade all levels of the organization. Even managers working for large employers often fear for their jobs.

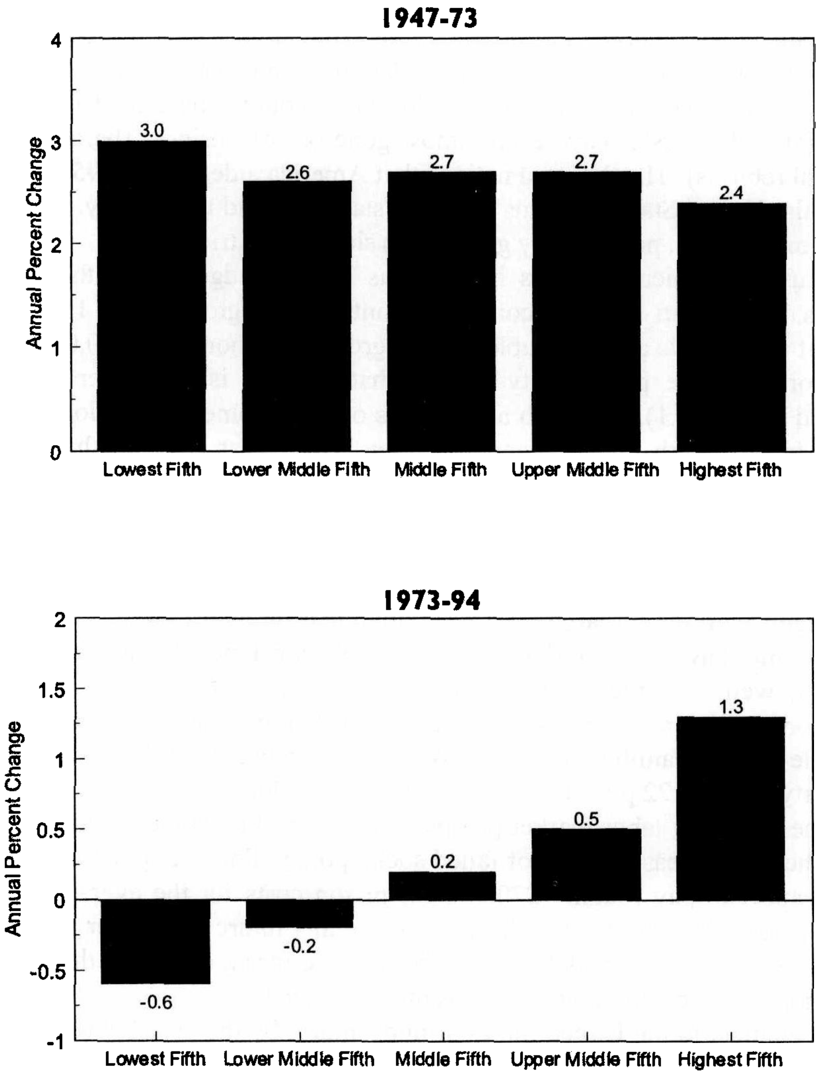
Families have changed dramatically as well. Most mothers now work for pay, as well as in the home. In addition, most children spend time living with only one parent, almost always a mother. Unfortunately, almost half of female-headed families are poor. While 14 percent of children lived in poverty in 1970, 22 percent were in poverty by 1996.

The declining labor market prospects for many low-skilled workers are matched by increasing costs of failed social policy. For example, the nation can expect to pay roughly $70,000 for prison costs for the average male high school dropout. (This calculation discounts future costs over the next thirty years into current dollars. It is the average for all dropouts; the figure for those who actually go to prison is much higher.)

In contrast to the United States at midcentury, by the year 2000 only 12 percent of new jobs are expected to require low or no skills (Hoye and Tegger 1996). The new economy has increased opportunity for those who excel at working as teams and solving problems. These new skills have become essential even on the automobile assembly line. They are even more crucial in the growing number of jobs dealing with information, computers, and customer service.

In spite of the slowdown in growth, new technologies and new ways of organizing work hold the potential for more interesting jobs and more productive workplaces. Most large organizations are redesigning themselves to

Figure 1.1 **Family Income, Average Annual Change**



Source: Mishel, Bernstein, and Schmitt 1997, 57.

be more flexible and responsive to their customers. A modest number of workplaces have reorganized so that front-line workers have more skills, more autonomy, and more rewards for solving their customers' problems. These innovative workplaces can produce better outcomes for both businesses and employees.

A Government for the New Century

Unlike the post–World War II era, the government is now held in low esteem by much of society. The small program to give cash grants to widows has grown into a welfare state. The great programs of the New Deal are now commonly thought of as morally bankrupt (welfare) or as soon-to-be literally bankrupt (Social Security).

Too many programs provide citizens (as employees, welfare recipients, managers, etc.) with poor incentives. Too many programs are based on rigid command-and-control rules. These rules, in turn, too often provide government agencies and service providers with poor incentives. Too often, multiple agencies with conflicting rules and uncoordinated approaches address a common problem. The resulting decisions often focus on the short run or on solving a piece of a problem, not on creating value for the nation's citizenry. It is always important to spend money cost-effectively, but the urgency rises as government spending declines in purchasing power. It is equally crucial for programs to improve continuously. Unfortunately, our government programs are often not as cost effective as they could be.

Overview of the Book

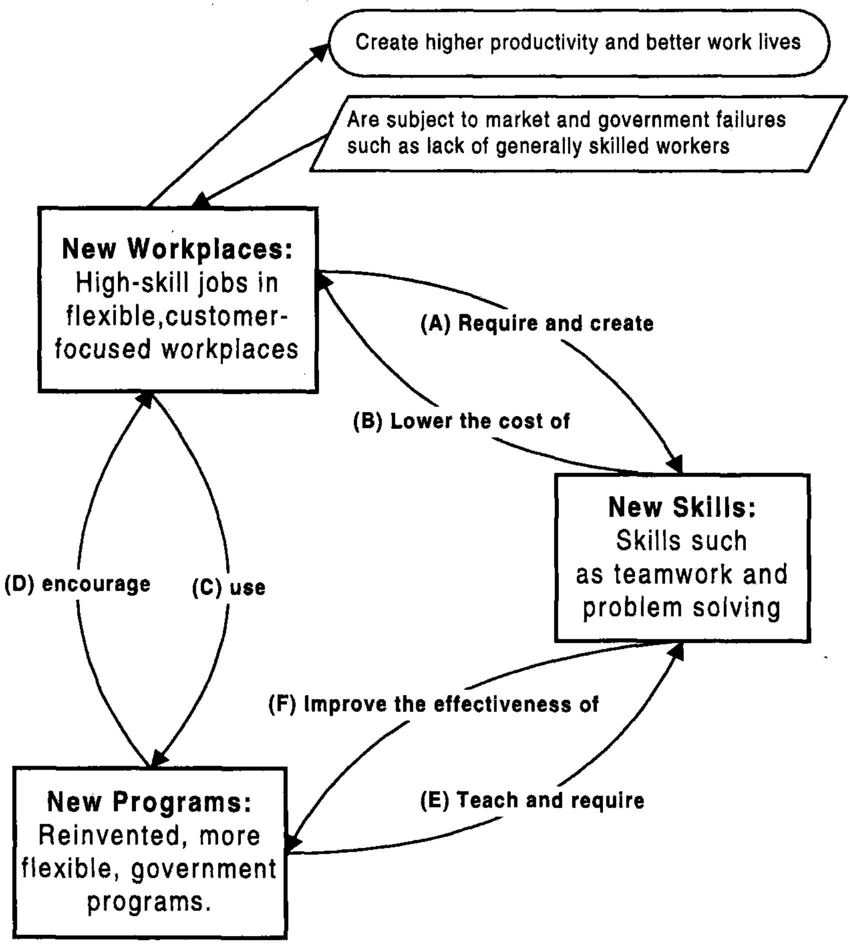
The bad news is that American productivity and living standards are no longer increasing at the rate of a generation ago. Moreover, because of rising inequality, living standards are actually declining for large segments of the population (chapter 2).

The good news is that flexible, customer-focused workplaces can improve productivity and the quality of worklife (chapter 3). Just as rigidities almost put Ford and Chrysler out of business, important lessons can be learned from their revival. Unfortunately, both government and markets work imperfectly—and a number of these imperfections reduce the adoption of flexible and customer-focused workplaces (chapter 4). We appear to be trapped in an inefficient but fairly stable situation where most employers choose rigid workplaces, in part because of a shortage of skilled employees. Government programs, in turn, are also typically rigid and hierarchical (in spite of the important efforts to begin moving to more flexible models).

The argument of this book can be summed up by looking at the interaction of the structure of workplaces, the skills of the workforce, and the design of government programs (Figure 1.2). Each of these is both a cause and an effect of the other two.

The increasingly demanding standards of customers are inducing many enterprises to move to high-skill and flexible workplaces. At the same time,

Figure 1.2 **Connections Between New Workplaces, New Skills, and New Government Policies**



these high-skill workplaces remain the minority. This relative rarity in part reflects market imperfections that lead to relatively few workers who have the needed skills (chapter 4). The ensuing shortage of workers skilled in problem solving and teamwork slows the spread of high-skill workplaces (path A in Figure 1.2).

The solution for this problem is found in schools. For generations, a key goal of many schools has been to teach students to show up on time and follow rules. These were often key skills of the nation's industrial economy at midcentury.

In the new economy, an increasing fraction of workers must know how