Workforce Policy Paper -- The Deane Group

The President's Workforce Policy: Executive Summary.

I. What has happened to the workforce?

We find that the genesis of the current "jobs problem" looks very different depending upon whether one looks back 5 years, 20 years or 50 years. We find that each perspective stresses important issues which cannot be ignored. Furthermore, the Administration is already producing initiatives to respond to the entire range of problems. In Section I, we provide a brief, objective snapshot of job problems from a short, medium, or long-term perspective.

- **5-year view highlights unemployment.** The recovery which is well underway is putting many Americans back to work. However, prior to the Clinton Administration the recovery was extremely slow. We are not yet up to full employment levels. In particular, certain communities and disadvantaged groups continue to face double-digit unemployment rates.

- **20-year focus emphasizes slow growth in our paychecks, greater inequality, and instability for family incomes.** The typical family has seen little increase in their standard of living for 20 years. Families with high incomes saw substantial increases. Families at the bottom of the income distribution have actually gotten worse off. With wider gaps between high wages and low wages, changing jobs becomes riskier and more likely to devastate families.

- **50-year perspective shows the transformation to a new American workforce** driven by advancing technology and greater unification of world markets. In 1940, nearly 70 percent of the workforce performed primarily manual labor; today only 40 percent of us do routine work with our hands. New technologies and more trade are leading to jobs which either pay higher wages for knowledge work or lower wages for routine tasks. Although many blue collar jobs are disappearing, more new jobs in management, design, distribution, and marketing are being created. In this section the changes shaping the "new workforce" are characterized.

II. What is likely to happen to the workforce in the future?

We find that accelerating the adjustment of workers and firms to the new economy is the critical factor for achieving sustainable growth while simultaneously raising living standards and lowering poverty. This conclusion is not derived from the traditional approach of extrapolating from past behavior. Simple projections presume that "more of the same" is a sustainable course. Instead, we use three alternative scenarios of the future to show turning points or potential deviations from the trends. This method of inquiry accents the choices we have as a nation: to take advantage of historic opportunities, to avoid dangerous pitfalls, and to shape the society in which we live. The critical factor for our future prosperity is rapid adjustment to a more highly skilled, globally competitive workforce through enhanced skills and flexibility.

III. What should we do about it?

Embracing Change by encouraging more workers and firms to adjust to change and compete successfully in the new economy is the President's workforce strategy.

As explained in Section I, many workforce problems exist in addition to structural change, including cyclical unemployment, stagnating income growth, and falling real incomes at the bottom. While the Administration has tactical policies to alleviate these problems, the President's workforce prescription focuses on the strategic challenge: How are we going to enable American workers to meet increasing demand for new skills and increasing competition from workers and companies around the world?

Only a swift and sustained response to these fundamental economic changes can ensure greater prosperity, equality, and opportunity for all Americans over the next few years as well as the next generation. The President's workforce strategy--**Embracing Change**--has three critical elements:

- LIFELONG LEARNING.

  Helping workers stay ahead of the shift from blue collar work to the information/service jobs of the future means better access to high quality education from pre-school to retirement. Not only does the quality of K-12 education need to improve dramatically, but more investment is needed before kids start school and after high school graduation. It matters more today that most Americans finish high school and a year or two more. Furthermore, everyone in the workforce should be adding to their skills and updating their education on a regular basis. In the new economy, a minimal education is more than it used to be.

- JOB CHANGING TOOLS

  Today, the best safety net is career planning, work experience, and job mobility. Workers who plan ahead to obtain new skills or change jobs will get more promotions, avoid layoffs, and minimize periods of unemployment. In Wayne Gretzky's parlance, don't move to the puck, move to where the puck will be. Those who find themselves out of work need to get back in the labor force as quickly as possible or try to improve their skills through training to avoid slipping further behind while others gain valuable work experience and on-the-job training. We need to remove barriers and risks that increasingly impede the traditional mobility and flexibility of the American workforce.

- COMPETITIVE COMPANIES *AND* GOOD JOBS.

  To ensure that the U.S. gets its share of new high value industries, we need a coordinated policy to promote the development and growth of new industries outside the military sector. That policy must recognize the interrelatedness of science, trade, labor market, and regulatory policy. At a minimum, the policy framework should try not to impede innovation in work practices, companies, or industries.

Section I.
What has happened to the workforce?

We find that the genesis of the current "jobs problem" looks very different depending upon whether one looks back 5 years, 20 years or 50 years. Observers frequently disagree about which workforce policies are the highest priority because their historical time frames differ. We find that each perspective stresses important issues which cannot be ignored. Furthermore, the Administration is already producing initiatives to respond to the entire range of problems as described in the conclusion to Section I. **However, as we will show in later sections, it is our success or failure in stepping up to the long-term challenges which will shape our future.** In this section, we provide a brief snapshot of each historical perspective.

A. THE JOBS PROBLEM: a five-year focus highlights unemployment

From a very short-term perspective, unemployment resulting from the last business cycle downturn is the most salient workforce problem. Although the recovery is finally well underway, unemployment still haunts many skilled and unskilled workers alike.

After dropping from its peak of 7.7% in 1992, unemployment remains above 6%.

This level of unemployment is consistent with the unusually slow recovery of GDP growth in 1991 and 1992. The GDP increased only 7.7 percent during the first eleven quarters of the recovery compared with an average increase of 14.3 percent in previous post-war recoveries. While more rapid growth in 1993 is creating new jobs in substantial numbers, we are still below a full-employment level of output. In particular, certain communities and disadvantaged groups continue to face double-digit unemployment rates.

B. THE JOBS PROBLEM: 10 to 20 year focus emphasizes slow income growth, increasing inequality, and less income stability

If one focuses on major workforce changes which have emerged in the last two decades rather than the last business cycle, three key workforce issues take precedence. These changes intensify the short-term effects of business cycles:

(i) slow growth of incomes
(ii) inequality of wages and
(iii) more fluctuations in each family's income.

(i) SLOW GROWTH OF INCOMES

Pay for workers stagnated. Average total real compensation for workers in the U.S. has remained virtually flat since 1986 (figure 1). Although real compensation grew between 1973 and 1986, it was at a much slower pace than prior to 1973. Since the cost of benefits has been rising--especially healthcare costs--changes in hourly earnings look even gloomier than total compensation figures. Non-management workers fared especially badly. The real average hourly earnings of private, non-supervisory, non-agricultural workers (over 80% of all employees in the private sector) is now at its lowest level since 1967. Even during the economic recovery period from 1983 to 1989, the purchasing power of these wages fell every year (figure 2). Slow wage growth has resulted in correspondingly flat growth in family incomes.

Family incomes stagnated. The typical family today has virtually the same income as the typical family two decades ago. This is a marked departure from the substantial income growth that occurred across the previous generation. From 1973 to 1992, the income of the typical American family was essentially stagnant, rising by only 0.1 percent (or $52) a year after adjusting for inflation. By contrast, from 1947 to 1973, the real income of the median American family increased by a robust 2.8 percent ($700) a year and in total it more than doubled over a single generation. At the pace of income growth from 1973 to 1992, it would take centuries for median family income to double (figure 3).

(ii) INEQUALITY

Wage differences increased. Underneath the averages, some people have made tremendous progress while others have lost ground. Even within narrow groups of "similar" people, wage differences have gotten bigger. A review of the research indicates that inequality in the U.S. labor market has increased regardless of the choice of data set, sample, or wage measure. *These changes represent a substantial break with historical trends.* Figures 4 to 7 plot relative hourly wages for full-time workers from 1963 to 1989. From these charts four conclusions emerge:

> ***The gap widened between high wages and low wages.*** Upper-income workers have experienced some earnings gains while lower-income workers have experienced the largest earnings losses. This is particularly true for men. This pattern was not offset by changes in fringe benefits favoring the less skilled nor by improvements in their chances of holding a job relative to those of more educated workers. It marks a real decline in economic well-being for many American workers.
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> ***The value of education and experience rose considerably.*** The college wage premium doubled in the 1980s for young workers (figure 4). Most of the relative shift represented losses to the uneducated rather than raises for the educated: the real hourly wages of young males with twelve or fewer years of schooling dropped by approximately 20 percent from 1979 to 1989. In addition, the average wages of experienced workers increased relative to those of younger workers (figure 5). At the same time gender became a less important factor in pay differences (figure 6).
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> ***Even people with similar education levels and backgrounds faced greater pay differences.*** If we examine the wages of individuals of the same age, education, and sex working in the same industry and occupation, we find greater inequality at the end of the 1980s than 20 years earlier (figure 7). Much of this rise in inequality involved

greater wage differentials for "similar" workers across establishments in the same industry. The identity of one's employer mattered more in earnings in 1990 than in the past.

Differences between earnings for black and white workers increased even when college education is taken into account. Black/white earnings gaps had narrowed substantially by 1975 for all groups, except non-college educated men. However, in the 1980s the black/white earnings gap increased 50%. The black/white gap for earnings of college graduates jumped the most: from 2.5% to 15.5%.

Family incomes diverged. The share of total national income accruing to the top 5 percent of families increased dramatically during the expansion of 1983 to 1989 (figure 8). As a result of increasing pay differences, incomes at the top have increased smartly, incomes at the middle have essentially stagnated, while incomes at the bottom have fallen. Figure 9 shows the different rates of real income growth between 1973 to 1992:

- Incomes for the **upper 20 percent** of families rose a healthy **19 percent.** (For the very wealthy, the increase was even more substantial.)
- Incomes for the **middle 20 percent** of families rose a paltry **4 percent**.
- Among the **bottom 20 percent** of families, incomes **fell by 12 percent**.

(iii) INSTABILITY

Fluctuations in earnings increased for men during the 1980s. Since Americans change jobs frequently, increasing inequality of wages leads to more uncertainty about future income. Changing jobs has become more of a financial roller coaster than it used to be.

A full-time job with employer-based benefits may be becoming a less typical model.
- The ***temporary help*** industry has grown from less than 0.25% of total employment in the early 1970s to nearly 1.3% today. Thus, while growth has been explosive, the total fraction of the workforce employed on a temporary basis is probably less than 3%. While there is little cause for concern that we will all become temporary workers, it may have considerable impact on the lives of certain groups such as low-income workers. ***Involuntarily part-time*** jobs as a proportion of the workforce seems to be trending upwards (figure 10).

- ***Longer hours and longer work weeks*** in manufacturing may indicate a tendency to hire fewer full-time workers in order to minimize overhead costs.

- ***A smaller proportion of jobs have non-portable pension benefits or any health benefits.*** Although the proportion of jobs with pension coverage remains stable, defined contribution plans--which are more portable from job to job--are becoming more common. A smaller proportion of jobs today include employer-provided health insurance compared to 1985. This represents a reversal of the trend toward more jobs with employer-provided health coverage.

C. THE JOBS PROBLEM: 50 year perspective highlights structural change

Why take a longer term view than the last recession or the last two decades? Some problems arise not from sudden swerve in history but from slow, creeping changes which remain almost unnoticeable until too late. There is an old saying: if you throw a frog in boiling water it will try to jump out; but if you put it in warm water and raise the temperature slowly, it will be boiled before noticing it's in hot water. We must watch not only for sudden changes, but also for long term, sweeping changes which could overwhelm us if we do not react swiftly. Two such long term transformations affecting the workforce are described below: (i) Technological change and (ii) Globalization of the economy.

(i) TECHNOLOGICAL ADVANCE DEMANDS NEW SKILLS AND FLEXIBILITY. Just as labor-saving devices have dramatically reduced the hours needed for farming and house work, labor-saving technologies have reduced the proportion of the workforce required for routine, manual work in manufacturing and service industries. The majority of the workforce has slowly shifted away from manual jobs such as farming and factory work into jobs requiring literacy, numeracy, communication, and problem solving abilities.

- **Rapid expansion of white collar jobs has offset the declining growth of blue collar jobs.** In 1900, over 80 percent of the workforce held jobs for which reading was not a necessity--manual jobs in factories or on farms (figure 11). Today, almost 60 percent of the jobs are white collar jobs in sales, administrative, technical, or professional occupations. Manufacturing in particular has seen an explosion of productivity which allows fewer and fewer people to produce more and more output (figures 12 and 13).

- **Blue collar jobs are becoming less different from white collar jobs.** Computer controlled production equipment, for example, requires math and computer skills.

- **The transition to new kinds of jobs has already exacted sacrifices from many families.** While technological progress creates new industries and new jobs, it also increases productivity in existing industries and causes job dislocation and adjustment difficulties for workers and their families.

- **We are not becoming a nation of "Burger flippers."** Although essential service jobs provide dignified entry level employment for young people, parents, new immigrants, and others, no one wants to see low skill jobs as a majority. They are not. Over the last 30 years, the share of the workforce in service occupations such as waitressing, janitorial, or hairdressing has remained virtually unchanged at 14% of the workforce. Employment growth in this sector has not outpaced the growth of the workforce, even though the actual number of service-occupation jobs has risen.

Our transformed workforce looks qualitatively different from our old conception of "normal work." *Most of us don't use our hands to make things anymore.* People frequently ask, where will the jobs be? The fifty year perspective gives a clear answer: Jobs involving routine work are disappearing. Job growth will be in occupations that add value to the product or service before it is produced (market research, design, testing, etc.) or after it is produced (sales, service, distribution, advertising, etc.). In fact, more than ever before Americans are paid for what they enjoy such as community service, sports, the arts, etc.

(ii) RISING GLOBALIZATION ALSO DEMANDS NEW SKILLS AND FLEXIBILITY. The U.S. has changed from a relatively closed economy with few equals to an open economy with many strong competitors. We can compete for export markets in other countries; other countries can compete in America. Like technological advance, globalization has been increasing steadily for many decades:

> Merchandise exports as a share of total goods output rose from about 4 percent in 1945 to 8 percent in 1960, and reached 19 percent by 1993. (figure 14).

Globalization has affected the workforce in the following ways:

- *U.S. Workers Increasingly Must Compete With Those in Other Countries.* In the absence of international trade, the laws of supply and demand for labor operate only within a country's borders. As trade increases, highly skilled workers in the U.S. must compete with highly skilled workers in other countries. Our less skilled workers must compete with those in other countries as well. In the world market, highly educated labor is scarce and less educated labor is abundant. Consequently trade can be expected to add to other pressures which are causing increasing disparities of income in the United States.

- *Our standard of living is higher because of the traded goods sector.* If we had to produce things we now import in lieu of our exports, we would be worse off. Because we produce more of what we are good at producing and less in areas where we are less efficient, our nation has an overall higher standard of living. For example, if we produced our own shoes instead of exporting machines, we would lose wages or shoes would be more expensive.

- *Domestic labor policies are more interdependent with the domestic policies of our trading partners.* The effects of stimulus policies for full employment, minimum wage levels, and labor law become more complex in an open economy.

One thing has not changed:

- *U.S. Workers are still the most productive in the world.* The productivity of the U.S. workforce is unequaled by any other nation (figure 15). In a global economy, a highly skilled workforce can raise living standards by not only producing more but also by increasing our share of global markets for high value industries.

D. Unemployment, inequality, slow income growth, and structural adjustment problems have been exacerbated by other trends:

Less progressive tax policy. At a time when the rich were already getting richer Reagan's tax cut on upper income–Americans exacerbated the problem.

Stagnating productivity growth. Figure 16 illustrates productivity trends in the non-farm business sector over the postwar period. In the 1980s as incomes diverged rapidly, productivity growth stagnated. People at the bottom actually had less food, clothing and shelter by the end of the decade, not just less relative to the top end. [1]

Demographic changes. U.S. firms had increasing access to world labor markets and a growing domestic labor force. Women entering the workforce and immigration swelled the workforce by more than 2 percent per year in the 70s and 80s (figure 17).

Deficit spending and military build up. Under Reagan and Bush the federal deficit grew by an average of about 12 percent annually, from $74 billion to over $290 billion. Although defense spending may have been necessary to win the cold war, it left the U.S. less well prepared to compete commercially.

Declining unionization. Union membership as a percentage of non–farm employment rose from less than 15% in the 1930s to its peak of about 35% in the 1950s. From 1960 onward, unionization of the workforce has been in steady decline returning to 15% of employment in 1992 (figure 18). In Europe and Japan, union membership as well as manual work have declined dramatically (figure 19).

Declining real minimum wages. The falling value of the minimum wage allowed low wages to get lower relative to high wages. If the value of the minimum wage were to have the same purchasing power in 1994 as it averaged in the 1970s it would need to equal about $5.55 an hour. Instead it equals $4.25 an hour, or nearly one quarter less than it was two decades ago (figure 20).

Declining enforcement of anti–discrimination laws. Under the Reagan and Bush Administrations, lax enforcement contributed to the reversal of increasing racial equity.

Inequality reinforces inequality. High concentrations of low–income students decrease average attainment levels and thus sentence the children to a future of lousy jobs. For example, an "A" student in a poor neighborhood performs at about the level of a "C" student in a better neighborhood (figures 21 and 22).

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[1] Some argue that the lack of productivity growth is an overstatement because the deflator does not properly incorporate increases in quality of products and services. However, even this might not explain the growing gap between rich and poor families in America. Increased quality of goods has possibly had a greater impact on the incomes of upper income people who drink cappuchino instead of coffee and enjoy more expensive, designer shoes.

Conclusion: What has happened to the workforce? What is the jobs problem?

As we have shown above, the answer frequently depends on whether one focuses on the short, medium, or long term. In practice, however, these historical factors are interrelated. Problems like inequality and unemployment are worsened by creeping structural change. Yet, some people will try to emphasize only one period in history to highlight particular policy issues--and to avoid the systemic issues. Some examples of how historical emphasis can set the workforce issue agenda are shown below.

From a short term perspective, sustaining the recovery and reducing unemployment through demand management are the critical issues. Demand management, some say, can make most of the workforce problems go away. One can argue that employers raise their skill requirements when applicants are plentiful, but will recruit and train less skilled workers when labor markets are tight. Thus, it can be argued that demand management will address the skills problems. With policy priorities shaped by this short term perspective alone, some argue that deficit reduction goals should be tempered. For someone who tends to focus primarily on recent history, reaching full employment is the only important policy issue.

In fact, short term issues provide only a partial picture of the jobs problem. Overall economic growth during the 1980s did not make most families much better off--and some became substantially worse off. Thus, one can argue that demand management alone will not be enough to benefit most Americans who work for a living.

Some commentators will use these issues from the 1970s and 80s to press for particular solutions to address inequality and stagnating incomes. Increased income redistribution and expanded support for the working poor could, for example, combat inequality and vulnerability of low-income families. Improving the investment climate--through deficit reduction and low interest rates--could jump start higher productivity growth and thus raise income growth. With rising incomes and greater equality of wage increases, all families would be less vulnerable to changes in fortune when they change jobs. But these, too, are only partial solutions.

Those who focus on long term, workforce changes would argue that demand management, income redistribution, and investment incentives are still not enough to fix the deeper problems which have arisen in the last fifty years. Prolonged recessions, rising inequality, and stagnant family incomes, in this view, are symptoms of the difficult transition to the new economy. The key issues are how to deal with the forces of technological change and globalization. To compete in the global economy the workforce needs to be more skilled and more adaptable to new technologies. In addition, "stimulating investment" needs to be defined more broadly than low interest rates and buying more machines. To be competitive, innovations are needed not only in machines, but also in organization of firms, and in the ability to utilize more fully the potential of workers. From the long-term view one can see that addressing structural adjustment would help solve the more visible problems like inequality, stagnating productivity growth, and weak recoveries.

In fact, the Administration has already taken action on the entire range of issues. Demand management and the slow recovery have been closely monitored. Deficit reduction has led to an immediate reduction in interest rates and an increase in private investment levels. An expanded tax credit for poor, working families will help full-time workers to support a family. Many initiatives are underway to deal with structural change: a new reemployment system, technology policy, health care reform, welfare reform, school reform, a new school to work transition system, and trade-expanding international agreements. Both macro and micro policies are being pursued. We are investing in both humans and technology. The overall policy mix is balanced.

The question for the next section is: how will these policy decisions today, based on changes in the past, affect our path into the future? Which strategies lead to the biggest benefits for the workforce? Which courses of action pose the biggest risks?

Section II.
What is likely to happen to the workforce in the future?

In this section we examine the future for American workers. We find that accelerating the adjustment of workers and firms to the new economy is the critical factor for achieving sustainable growth while simultaneously lowering poverty, crime, and the associated costs.

This conclusion is not derived from the traditional (and often uninformative) approach of extrapolating from past behavior. Simple projections presume that "more of the same" is a sustainable course. Instead, we will use alternative scenarios of the future to show turning points or potential deviations from the trends. This method of inquiry accents the choices we have as a nation: to take advantage of historic opportunities, to avoid dangerous pitfalls, and to shape the society in which we live.

This section is organized in the following manner. First, we briefly cover the underlying forces of change that inform all the scenarios. Secondly, three distinct scenarios are discussed. For each scenario we consider the immediate consequences as well as the four to eight year repercussions. Finally, our choices as a nation are summed up. How we work, who we are, and the nature of our society will be determined by which path we choose.

UNDERLYING FUTURE TRENDS: It should be clear from the historical trends we have examined in Section I that the workforce is undergoing a metamorphosis. Regardless of our policy strategy, the "typical" American worker in the future will look very different. What will work be like in 2005?

- *Jobs will look different.* Blue-collar jobs and white-collar jobs are likely to be less distinct. Manual jobs will require more problem solving ability; design and engineering jobs may require more hands on experience. The size of the gap between high and low wages will depend on the relative scarcity of knowledge workers and routine workers.

- *Companies will look different.* Organizational structures will be flatter, leaner, more decentralized, and integrated by consensus goals rather than top down authority. For many companies alliances between groups of companies, supplier relationships, and customer relationships will become strategically more important than vertical or horizontal integration because these quasi-mergers are more flexible and adaptable. Some Fortune 500 companies will be more like alliance brokers with a recognized name brand and a credit rating to offer lesser known, up and coming lines of business.

- *Careers will look different.* People, like major corporations, need to be prepared to sever relationships with declining businesses and establish new relationships with growing, profitable businesses. Security of income and career progression will depend less on strong attachment to any one organization and more on career planning, smart choices, and continuous skill development. Unions will take on additional roles in helping workers to plan and navigate career moves.

Advantages for the workforce in the year 2005.

High pay for marketable skills. Those who have more marketable skills will benefit from higher pay and more autonomy to set the pace and direction of their work. Marketable skills are more likely to include teamwork, writing, reading, technical aptitude, speaking, or solving problems--not heavy lifting.

Work is more flexible, less de-humanizing. The industrial revolution provided the average American with affordable cars, T.V.s, phones, air travel, and freedom from dawn to dusk hours with no weekends. In the next wave of technological advance we are likely to see new products like interactive T.V., custom cars, and virtual reality. In addition, we will trade the mind-numbing, assembly-line style of work for jobs with more creativity and more control over the pace and direction of our day.

More time for leisure, community service and personal growth. In 1776, the need to use three-fourths of our workforce to produce food meant limited participation in education, sports, family, art, or community activism. Although the industrial revolution freed up many of us, by 1930 more than half of our workforce remained trapped in mind-numbing, repetitive or physically exhausting jobs. Today, more than ever before, people get paid to think, to interact with other people, to use valuable experience or training, to serve the community, to be creative, to be entrepreneurial, or to seek the limits of their potential in sports, art, and music. This upward trend is likely to continue.

More entrepreneurship. As mass production becomes less profitable relative to niche markets and specialized customer needs, there will be more opportunity than ever for the American entrepreneur to succeed based on a good idea and hard work.

Disadvantages for the workforce.

Lower wages for fewer skills. While those with the most marketable skills are likely to benefit from global competition, those with the fewest salable skills will find their prospects dwindling. The basic BLS occupational model predicts that high school drop outs or non-english speaking immigrants in the workforce in 2005 will find intense competition for unskilled jobs such as gardeners or janitorial labor.

Career predictability may not return to the stable patterns which characterized the mass production economy in the 1950s and 1960s. Income growth may remain more volatile as workers move in and out of declining firms and industries. Rapid international movements of capital also may decrease career predictability.

If less equality remains a permanent feature of our economy, it could change the American way of life. The stability of our democratic, capitalistic society is, in part, based on a certain degree of equality and social mobility. Today, inequality has rapidly reached levels not seen since before World War II. Hard-working, law abiding citizens could become increasingly divided into the high-wage haves and the low-wage have nots. If the majority of our children grow up without hope, quality education, or a stake in society, "The American Dream" and the "Land of Opportunity" becomes a mockery.

THREE SCENARIOS: CHOICES AND RISKS FOR THE FUTURE

Our policy choices today will have a tremendous impact in the next five years on whether the advantages of the new economy outweigh the disadvantages. Will high wage work, low wage work, or poverty be the defining characteristic of the workforce in the future? Depending on which lessons we learn from history and how we respond to them, we will determine whether our economic pie expands, how fast, and how it is divided up.

Scenario 1: Inertia or "Policies of the Past." In this scenario, the U.S draws lessons primarily from recent history and ignores the longer term trends. The government continues to do what it did in the 1980s: borrow and spend. Families and firms who are succeeding in the new economy would continue to ignore those who are unable to compete. In the short run, demand management could lead toward a successful recovery with GNP growth returning to levels seen in the 1980s. However, with health costs continuing on the trend line, budget deficit would soar to new highs keeping interest rates high and investment levels low. Productivity growth and thus income growth would continue to flounder. We would expect to see more of the same from the 1980s: substantial GNP growth accompanied by little improvement for the typical American family and worsening fortunes for those at the bottom. Some families would see their incomes grow, while others would continue to lose ground. This is a better outcome than a failed recovery, but hardly satisfactory.

Results of inertia in 4 to 8 years: Such a strategy may not be sustainable. Lack of investment in technology as well as people sets up a vicious cycle of spending and decline. An abundant supply of high school dropouts, immigrants and cheap foreign labor would likely put downward pressure on their wages and increase poverty, unemployment, and crime. Despite booming growth and rising wages for the highly skilled, public expenditures would be rising for unemployment, welfare, housing subsidies, food stamps, and health care. This spending hemorrhage would spur greater budget deficits and interest rates, thus further stifling private investment. This downward cycle of low-wage work would be exacerbated by low levels of physical investment, which further reduces the availability of high-paying jobs for low-skill workers.

One might argue that market incentives--higher wages for higher skills--would naturally lead to training investments and thus reverse the increasing wage differential. However, numerous failures in markets for human capital make it unlikely that individual actors would adequately rise to the challenge. For example, the inability to resell or repossess human capital discourages many employers and bankers from investing in it. In addition the lower paid, less skilled individuals who need training most find it difficult to borrow in order to finance their own skill investments. Because of these well known market failures, the government routinely provides funding for primary, secondary and some college education. While the existing system of government support was adequate for a farm- and factory-based domestic economy, it is not preparing enough of our workforce for jobs in a knowledge-based, highly competitive economy. Free markets or old education systems will likely fail to meet the increasing demand for workers who can read, write, use computers, and solve problems.

Ultimately the growth of US-based businesses would be curbed not only by the high price of skilled workers, but also high interest rates and high taxes for supporting those who do not have the skills to compete for good jobs. In the not so distant future, prosperous workers and firms in the U.S. may find that they simply cannot afford the cost of abandoning their fellow citizens. The Republican legacy could be a 1980s and 1990s boom that fizzles out under mounting costs of a class of workers who are left behind.

Scenario 2: "Buying off the poor." If we take our lessons primarily from the 1970s and 80s, but once again ignore long term changes, we may end up treating the symptoms without affecting the disease. This strategy involves a major shift from consumption to investment--but the investments are only in technology and trade, not people.

We can imagine a political compromise involving more redistribution of income to the poor in exchange for advantages to business such as more open trade, deficit reduction, and lower interest rates. Firms invest in technology which de-skills work and increases the productivity of less skilled workers in the U.S. or overseas. While growth is more sustainable in this scenario, the divide between the "knowledge class" and the others continues to widen. As the pie grows, incomes rise and so does inequality. Technological progress and global competition moves full speed ahead, while the poorly educated find it harder and harder to catch up.

In this scenario, like the first scenario, America does not deal with the growing problem of the increasing demand for skilled workers and the lagging skills of our workforce. To return to the analogy of the frog in hot water: the temperature is slowly rising and we aren't even trying to get out of our predicament. In the first scenario, "policies of the past," we are boiled before we realize anything has changed. In the second scenario, "buying off the poor" we forestall the boiling point while the way out gets increasingly difficult.

Nothing is done in either scenario to help the low skill workforce adjust. As a nation, we increasingly feel the heat of crime, welfare, and lost productivity. The human skill deficits in our workforce--and the cost of fixing them--loom larger and larger as technological change and global integration move forward.

Scenario 3: Coping with Long-term Change. If we decide we can no longer ignore the slowly rising temperature, we will try to invest not only in machines, but also the people who must use them. It is worth presenting two variations on a strategy to confront long-term change: Retrenchment v. Embracing Change.

Scenario 3-Variation A -- Retrenchment. Beleaguered firms and workers could mobilize political support for slowing down the forces of change to allow more time for the necessary training and restructuring. It would be argued that protection for uncompetitive industries would facilitate restructuring. Similarly, we could increase tariffs on trade with countries whose wages are lower than ours to offer more breathing room for workers with low skills. We could follow the European example and try to induce companies to invest more in their labor force by increasing the restrictions on firing workers. By slowing down the changes in trade and technology, firms and workers would have more time to adjust, to train, and to become more competitive. In the next few years, such a strategy could reduce layoffs, raise wages for manual labor, and favor U.S. based companies over foreign based operations.

Results of Retrenchment in 4 to 8 years: Where would such a strategy lead? Experience suggests that protecting industries does not lead to improved competitiveness. When financial pressures for change are alleviated, firms and workers tend to resist and avoid change. Furthermore, any increase in our tariffs significant enough to help workers or industries would be likely to cause increased prices, trigger retaliations, and eliminate more export jobs than jobs gained by holding our domestic markets captive. Restrictions on firing would also create a disincentive for firms to expand competitive industries in the U.S. Other countries able to quickly adjust to higher skill and higher tech work could gain a competitive advantage in emerging, more profitable industries. Thus, retrenchment could actually lead to a slow (or rapid) decline of GNP growth. Unemployment and declining income growth might return with a vengeance when global market forces overwhelmed our barriers to technology and trade. By the end of a decade, poor and less skilled workers might find that their real earnings had declined more than would have been the case in the inertia scenario! The effort to find shelter from the winds of change could turn the U.S. into a second class, uncompetitive nation in which all of the workforce suffers...more equally.

Scenario 3-Variation B -- Embracing Change. Where would we be in the next century if the federal government acts immediately to provide incentives and leadership to hasten adjustment rather than fighting change or letting us drift?

If both the winners and the losers in the new economy pull together and invest in the workforce today, we can avoid any of the dismal fates described above. A substantial investment in workforce skills is needed to get ahead of the long term demand shift away from manual work and to compete in the global economy. Not only does this require better schools and healthier children, but also a major investment in the current workforce who will be the majority of workforce in the year 2002. *Never before has public policy been aimed* *directly at increasing the skills of the whole workforce.*

However, a shift toward workforce skills investment would not be successful at raising incomes if it caused a significant reduction in R&D or physical capital investment. Technology investment contributes to wage growth by increasing the productivity of the workforce as well as the competitiveness of firms.

Increasing public spending on skills and technology at the same time (without raising taxes or deficits) can only be accomplished by reductions in other forms of government spending. Government spending on consumption--welfare incomes, unemployment incomes, defense outlays and subsidies to uncompetitive industries--must be directed toward supporting investment spending for skills, equipment, and research. Increasing the efficiency of government and reducing its overall operating cost could also contribute to the shift of public expenditure toward investment. In particular, greater efficiency in government training programs--cutting red tape, increasing accountability, and seeking private sector matching--would improve the impact per billion dollars spent.

By pulling together and directing as much money as possible into investments which improve the productivity of the workforce, we can leap ahead of the long-term shift instead of being dragged forward involuntarily.

Results of Embracing Change in 4 to 8 years: Firms in the U.S. would be more competitive with an abundant supply of skilled workers, civilian research and investment capital. The U.S. would attract more leading-edge firms that respond to specialized customer needs with flexible technologies and empowered workers. With reduced costs for basic literacy training and less incentive to dumb down the work, these firms will offer more challenging jobs with higher pay. Median wages would rise as more people obtain these higher-wage jobs. Expenditures on welfare, crime and other social problems would decrease in proportion to our ability to help people at the bottom become more productive. More Americans would be able to begin the transition toward the knowledge-intensive jobs that pay higher wages in a globally competitive economy.

Although achieving high literacy levels and thinking skills for 100% of the workforce by 2002 is unrealistic, workers with fewer skills would still be better off in this scenario. Jobs for workers with the least skills would pay more if fewer workers were competing for those openings, particularly in non-tradeable sectors like child care, food service, or cleaning.

Tying social benefits for individuals to work and training rather than non-work, cements the compact between the rich and the poor to pull together. Investing in companies which are competing and winning rather than subsidizing the uncompetitive ones sends a similar signal to firms. As a society, we should reward work and innovation--not non-work and uncompetitiveness. If we pull together now, the whole economy can prosper in the century ahead.

Conclusion: What is likely to happen to the workforce in the future?

The most dangerous path over the next few years is the myopic, short-term approach. "Policies of the Past" --not reacting to long term changes, not investing in the future--is likely to lead to a vicious spiral of crime, welfare, and more low-wage work. A second strategy, "Buying off the Poor," entails investing more in machines, but not people. Although it may be more sustainable than inertia, such a strategy may transform our society into a deeply divided one. The battle between the haves and the have-nots could undermine the American way of life. Thus, while recent history points up a range of important jobs issues to be dealt with, we will not get ourselves out of hot water without dealing with the longer-term structural changes.

If, however, we face up to structural change by fighting it (as in the "Retrenchment" scenario above), America may turn into a second rate economic power in which families suffer declining fortunes equally.

Only by "Embracing Change," making a rapid shift toward investment in people as well as machines, can we achieve a future in which most working people experience the full promise of the new economy. We need all three key elements: 1) a rapid response, 2) investment in technology and competitiveness, and 3) most importantly, an investment in people and skills. To leave out any of these three elements is to choose low wages, declining growth, poverty, and crime instead of more interesting jobs, higher wages, and opportunity for all.

The American workforce--the whole American workforce--has an extremely bright future ahead if we are willing to seize it.

Section III.
What should we do about it?

Encouraging more workers and firms to adjust to structural change and compete successfully in the new economy is the highest priority for the President's workforce policy.

As explained in Section I, many workforce problems exist in addition to structural change, including cyclical unemployment, stagnating income growth, and falling real incomes at the bottom. While the Administration has policies to alleviate these workforce problems, they are not the primary focus of the President's workforce strategy. The logic behind this preference is explained in Section II: Only a swift and sustained reaction to ***structural change*** can ensure greater prosperity, equality, and opportunity for all Americans over the next year and the next generation. Thus, the President's strategy focuses on rapidly shifting our federal workforce policy framework in line with the new, knowledge-intensive, globally competitive economy.

The President's workforce strategy, **Embracing Change**, has three critical elements:

- **Lifelong Learning**
- **Job Changing Tools**
- **Competitive Companies and Good Jobs**

This framework for workforce policy represents a significant paradigm shift from the policies that were appropriate in the 1930s or the 1960s. Meeting the challenges of the new economy requires that we question fundamental policy assumptions and, in places, start from scratch on new problems. Moving federal workforce policy into harmony with the post-Cold War economy is like turning a battleship...it takes a great deal of patience.

To help us step back and assess our progress in transforming the federal role, this section of the paper outlines each of the three elements of our workforce policy framework in the following manner. First, old economy policy assumptions are contrasted to new economy imperatives. Secondly, we present the objectives, the strategy for tackling these new imperatives, and the 4 to 8 year expected results. Thirdly, we list the key hurdles we must overcome in each area to achieve the desired results.

What should become clear after reading this overview of our policy framework is that various components of our policy agenda are at very different levels of development. Some pieces of the framework are closer to the implementation stage. For example, pre-school investments do not require a major new program design, but rather, increased funding and improved implementation. Other areas of the framework require major new authorizing legislation and reforms as well as funding and implementation. For K-12 education, employment assistance, or healthcare portability, we have a host of legislative reform initiatives either in Congress already or poised for transmittal. Finally, there are components of our policy agenda which are so new, so different from our old postwar economic workforce policy, that little institutional foundation exists and thus, initiatives are not yet ready. Education and training programs for *employed* workers and high performance workplace policy are examples of these cutting edge policy areas.

While the entire range of policy initiatives deserves our full attention and support, it is the last category, the least developed and the least institutionalized policies, that are in danger of being overlooked in the midst of chaotic Washington calendars. Yet, it is these policies which are perhaps, the most important for shifting our paradigm, meeting the challenges of the new economy, and choosing prosperity over poverty.

From a basic K–12 public education to

...Lifelong Learning

Old strategy: Providing an education from kindergarten through twelveth grade used to be enough to prepare every American to support themselves and participate in the democratic process. Scholarships, loans, and grants which produced an elite corps of nobel prize winners, college graduates, scientists, and educators were all that we needed.

New economy imperatives: Helping all workers stay ahead of the shift from blue collar work into the information/service jobs of the future means better access to high quality education from pre–school to retirement. Not only does the quality of K–12 education need to improve dramatically, but more investment is needed before kids start school and after high school graduation. It matters more today that **most** Americans finish high school and a year or two more. Furthermore, everyone in the workforce should be adding to their skills and updating their education on a regular basis. In the new economy, a minimal education is more than it used to be.

POLICY OBJECTIVES.

Objective 1: By 2000, all children start school ready to learn.

Strategy: Expand proven programs (Headstart, Immunization, Women Infants and Children).
Evaluate new programs such as Family Preservation.

4 to 8 Year Results: Objective 1 above will essentially be met if full funding for Headstart, Women, Infants, and Children and Immunization are achieved by 2000.

Hurdles:

- Relative to challenges facing K–12 or workforce learning policy, the hurdles for pre–school investment policy are relatively smaller.

- Approval of Administration's budget requests to phase in full funding.

- Achieving consistently high quality in Headstart and other programs.

- Funding and evaluation for newer programs.

Objective 2: By 2000, 90% of students will graduate from schools with high standards.

Strategy: Systemic reform of current K–12 institutions. (e.g. GOALS 2000: Educate America Act, Elementary and Secondary Education Act Reauthorization, School to Work...)

4 to 8 Year Results: A high school degree becomes proof of achievement in America and is earned by a higher proportion of American students.

Hurdles:

- Passing and implementing the suite of reform bills.

- Winning accountability measures that provide sufficient impetus for real reform.

- Finding new funding for capacity building investments like teacher training, technology investment, or reorganization.

- Redirecting funds from old to new programs (e.g. more targeting of federal funds to the most needy students and shifting vocational education funds toward a new, comprehensive School to Work system).

- Building consensus and collaboration (e.g. State & Local governments, parents, business).

Objective 3: By 2000, entire workforce with literacy and basic skills for new economy jobs.

Strategy: Create new systems for lifelong learning. (e.g. School to Work, National Service, Reemployment Act's retraining programs and one–stop shop)

4 to 8 Year Results: Measurable, universal improvements in workforce literacy and skills.

Hurdles: The hurdles in this area are greater than in the K–12 or pre–school arena.

- There is no tradition of national responsibility for providing predictable access or quality in post–secondary education and training––especially for incumbent workers.

- We have no major training initiatives in Congress addressing all incumbent workers.

- The needs of adults are highly varied; we know less about what works.

- Existing post–secondary policies are fragmented. Implementation responsibility spans many departments and is not well coordinated which undermines the effectiveness of local administrators with workforce investment responsibility.

From the safety net to

...Job Changing Tools

Old strategy: The manufacturing economy used to provide good jobs for most people who were willing to work hard. Large scale, stable employers took care of employees and provided retirement, health benefits, and training. A minimal social safety net for those who were down on their luck (unemployment insurance, welfare) was enough to help American workers through occasional hard times between good jobs. Little career planning was needed to move from one assembly line job to another.

New economy imperative: Today, the best safety net is career planning, work experience, and job mobility. Workers who plan ahead to obtain new skills or change jobs will get more promotions, avoid layoffs, and minimize periods of unemployment. In Wayne Gretzky's parlance, don't move to the puck, move to where the puck will be. Those who find themselves out of work need to get back in the labor force as quickly as possible or try to improve their skills through training to avoid slipping further behind while others gain valuable work experience and on-the-job training. We need to remove barriers and risks that increasingly impede the traditional mobility and flexibility of the American workforce.

POLICY OBJECTIVES.

Objective 1: Reduce risks of job changing.

Strategy: More portability of health benefits, skill qualifications, and pensions.

4 to 8 Year Results: Healthcare is universal; job lock from healthcare disappears. Skill standards reduce the loss of income associated with job losses. High school graduates get better jobs and move up faster. Plans for pension portability are under negotiation.

Hurdles:

- Building consensus is a long process since everyone is affected by healthcare and pension policy.

- Passing the health reform bill and the skill standards bill.

- Planning for pension reform in second term.

- Implementing skill standards in a flexible, agile style.

Objective 2: Encourage smarter job changes and career planning.

Strategy: Universal aid for career planning and job hunting.
(One–stop shopping, school–to–work, welfare–to–work, and work–to–work)

4 to 8 Year Results: Every state provides convenient, customer–oriented career assistance to everyone who needs it. Shorter spells of unemployment, reductions in the loss of income associated with job loss. Instead of waiting until disaster strikes more people plan ahead. More people choose training as a preventative measure.

Hurdles:

- Getting the major initiatives in this area passed and funded.

- Changing attitudes will be critical. Few Americans are accustomed to planning ahead for career decisions.

- Shifting from a focus on the poor and unemployed to employment assistance for all will not be easy. The truly universal programs--one stop shop and school to work--will take time to ramp up.

- Coordinating the implementation of welfare to work, school to work and work to work is crucial. As these systems are overhauled, we should be building compatible systems for career planning that are flexible and customer–oriented.

From a focus on defense and regulating business to

...Competitive Companies and Good Jobs

Old strategy: Science and regulatory policies had little to do with each other or with the economic growth of the nation. Much federal scientific research was aimed at developing state of the art defense systems. Regulation of business primarily limited abuses of market power with, for example, anti-trust laws and collective bargaining laws.

New economy imperative: To ensure that the U.S. gets its share of new high value industries, we need a coordinated policy to promote the development and growth of new industries outside the military sector. That policy must recognize the interrelatedness of science, trade, labor market, and regulatory policy. At a minimum, the policy framework should try not to impede innovation in work practices, companies, or industries.

POLICY OBJECTIVES.

Objective 1: Promoting the High Road to Competitiveness.

Strategy: Stimulate innovative technologies and best-practice production methods through R&D and outreach. Encourage U.S. businesses to adopt employment practices and technologies which fully utilize the talents of all workers. (e.g. Clean Car Project, Conference on the Workplace of the Future, National Information Infrastructure, New Office of the American Workplace at the Department of Labor, Dunlop Commission's Labor Law Reform, Technology Reinvestment Program, Manufacturing Extension Program, Baldridge Award, other public-private partnerships.)

4 to 8 Year Results: More consistent use of best practices and highly skilled workers. Create a climate of research, innovation, and investment which is more attractive to high wage employers.

Hurdles:

- Wider range of best to worst practices in the U.S. than other countries.

- Limited budget for new R&D or investment incentives. Shifting from old investment priorities (Defense) to new (Civilian) is slow and difficult.

- Antiquated regulatory concepts and regimes.

- Integrating a human resource strategy with the strategy for technological innovation and dissemination of best practice production methods is not easy.

- Long term investment in technology and workers demands sustained political support as well as R&D resources.

Objective 2: <u>Blocking the Low Road.</u>

Strategy: Ensure that workers and the majority of law-abiding, U.S.-based employers are protected from the minority of firms that will try to cut costs by ignoring the employment laws or health and safety regulations.

4 to 8 Year Results: By targeting more enforcement resources on workplaces with a track record for hazards, we will achieve healthier, safer workplaces on average and reduce the regulatory burden for workplaces with better health and safety performance.

Hurdles:

- Building consensus on reform of the Occupational Health and Safety system.

- Identifying other areas for labor law reform.

- Gaining acceptance for creative alternatives like worker management committees.

CONCLUSION

By the year 2000, our Embracing Change strategy--Lifelong Learning, Job Changing Tools, and Competitive Companies/Good Jobs--will encourage the development of a more highly skilled, more agile, workforce as well as the demand for such workers in competitive companies. Without the courage and conviction of these choices, we will be missing opportunities for greater prosperity and growth in the U.S. and abroad. As explained in Section I, there are many workforce problems in addition to structural change, including cyclical unemployment, stagnating income growth, and falling real incomes at the bottom. While the Administration has tactical policies to alleviate these problems, the President's workforce prescription focuses on the strategic challenge: How are we going to enable American workers to prosper in the new globally competitive economy? Only a swift and sustained response to the new economy can ensure greater prosperity, equality, and opportunity for all Americans over the next few years as well as the next generation.

Figure 1. Real Hourly Compensation of All Persons in the Business Sector

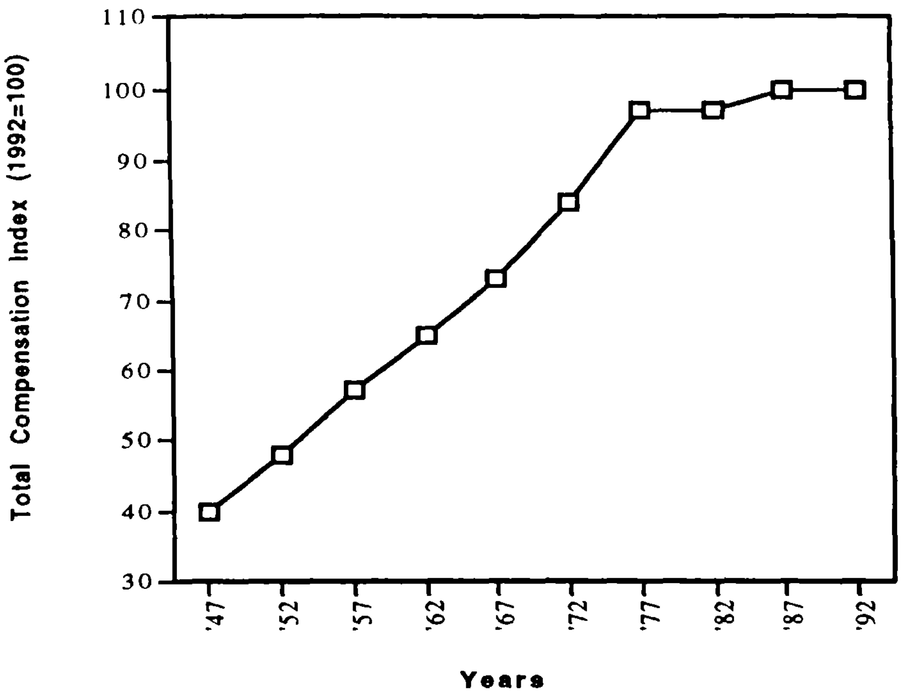
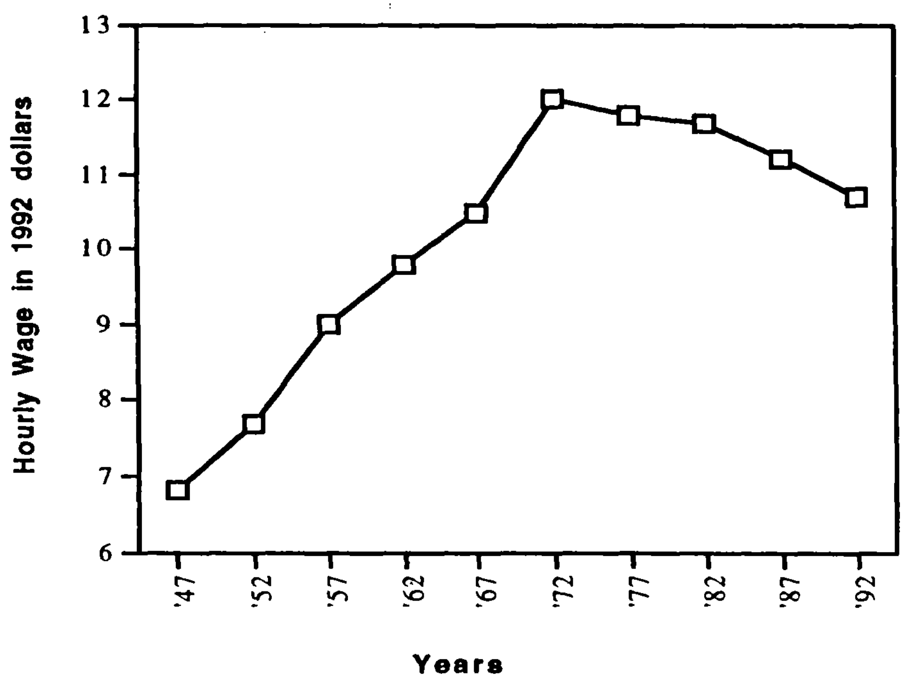
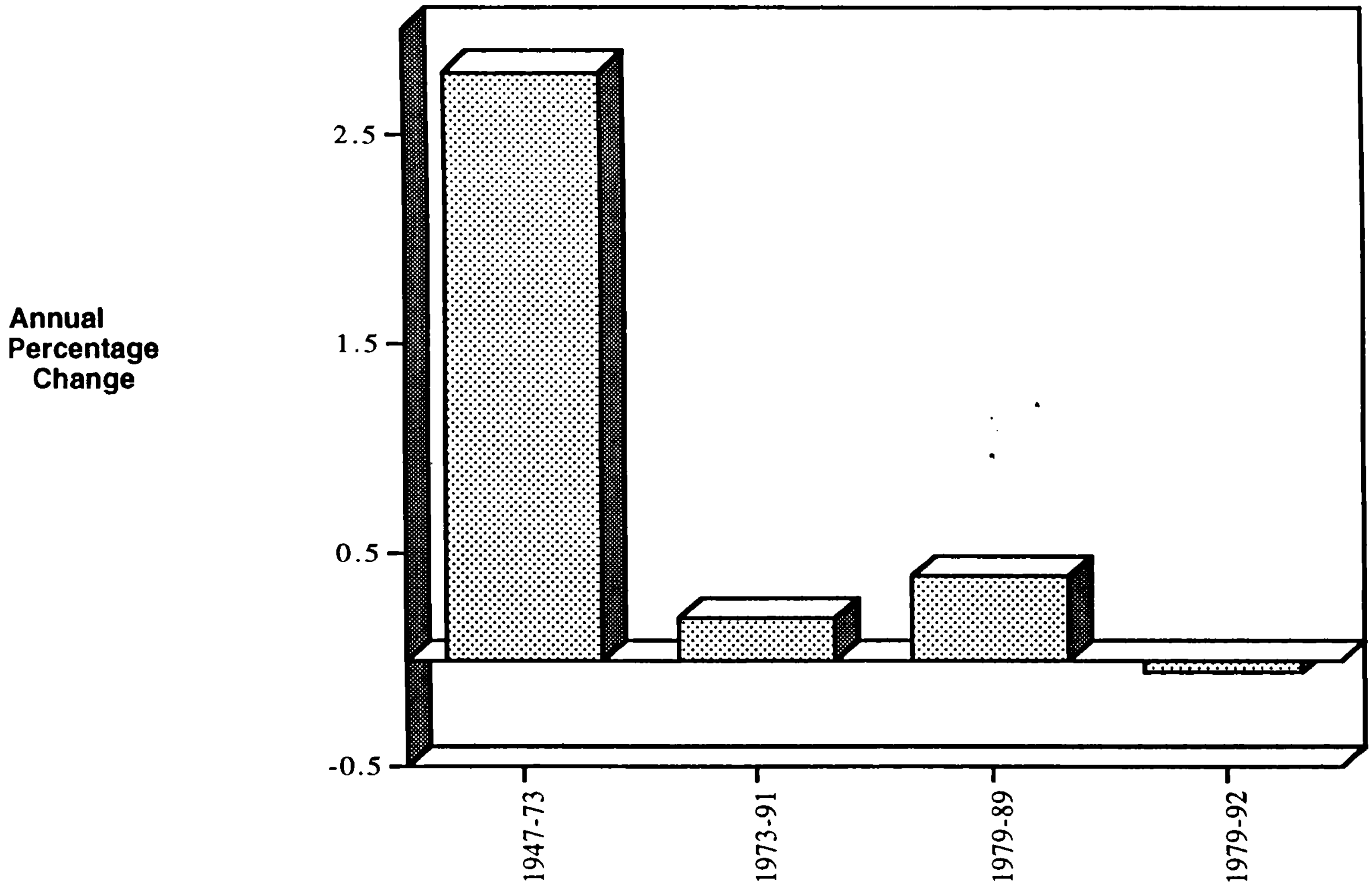


Figure 2. Real Hourly Wage of Private Non-supervisory Workers



Source: Bureau of Labor Statistics

Figure 3. Annual Growth in Real Median Family Income



Source: Bureau of the Census

Figure 4. US Hourly Wage Changes
1967-1989

Returns to College for Males. All New Entrants
all experience levels

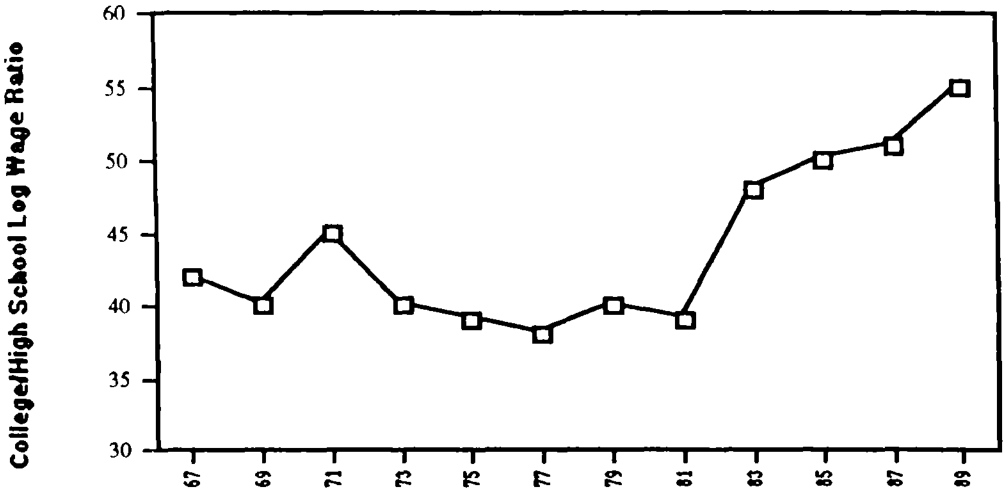
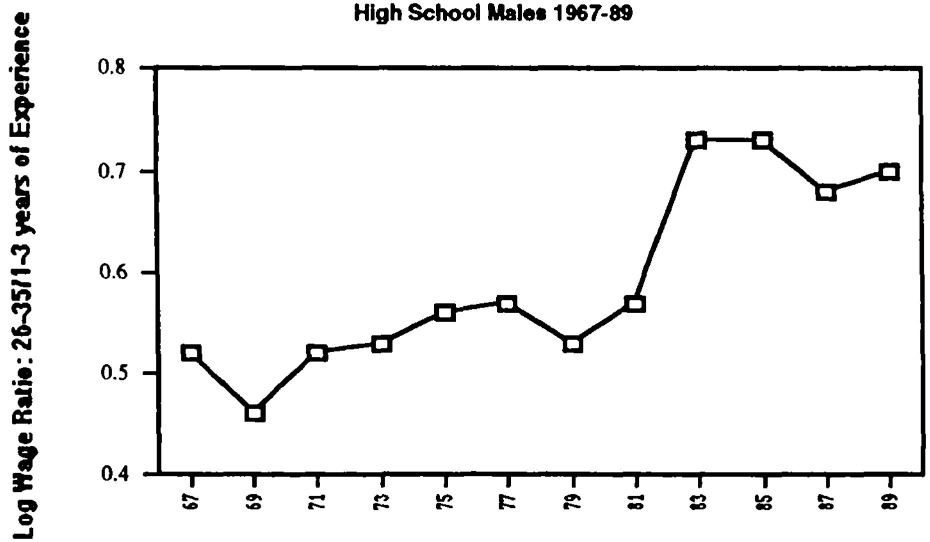


Figure 5. US Hourly Wage Changes
Returns to experience for
High School Males 1967-89



Source: Katz, Loveman, and Blanchflower (1993). "A comparison of changes in the structure of wages in four OECD countries." NBER Working Paper No. 4297

Figure 6. US Hourly Wage Change
1967-89

Gender Differentials by Education
(0) High School (1) College

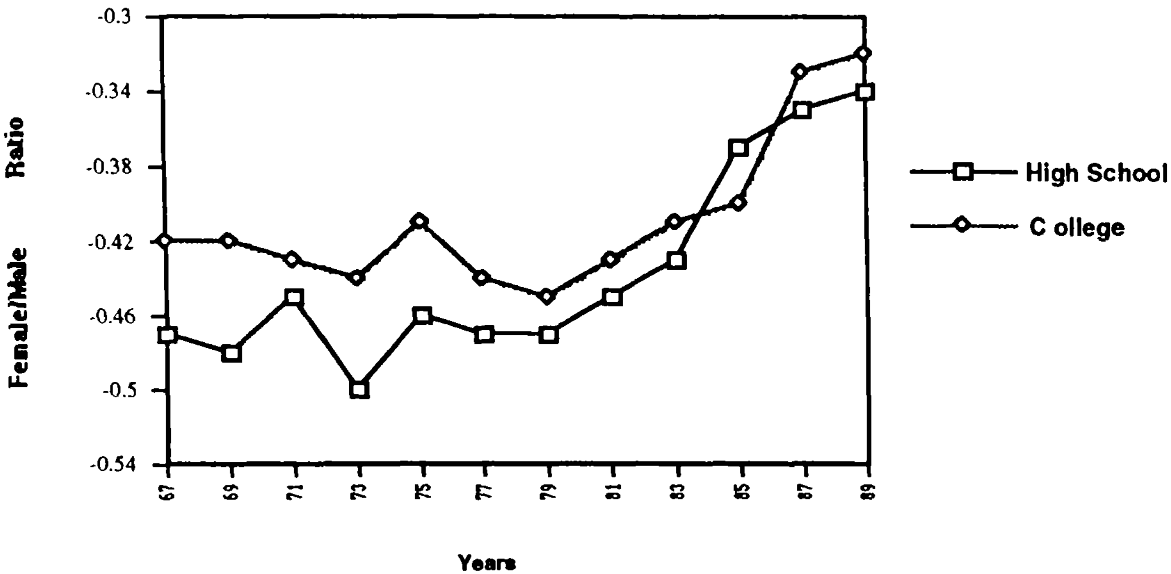
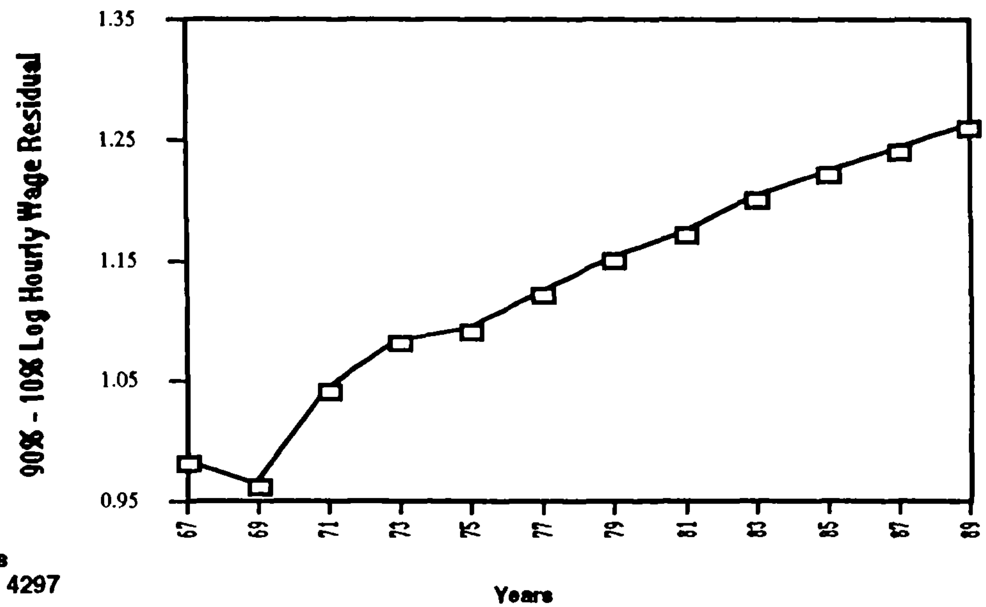
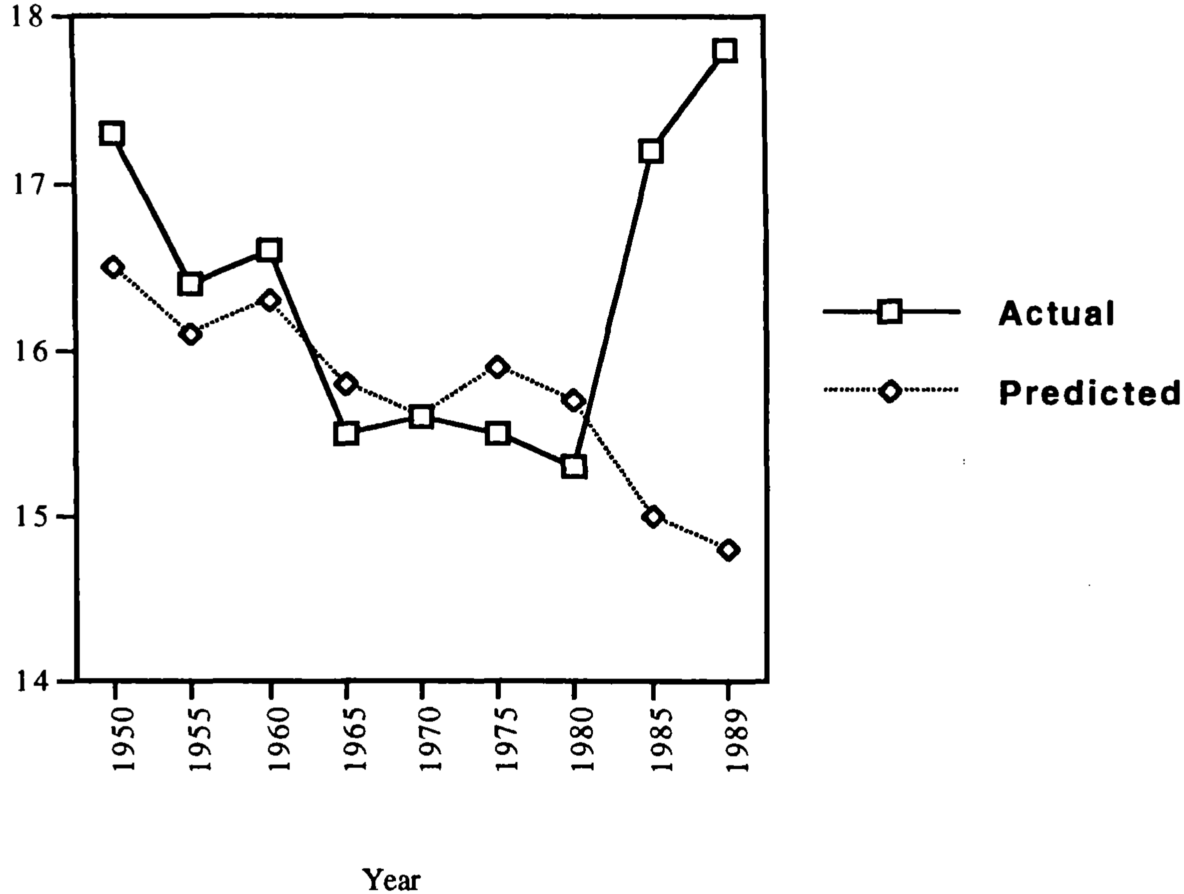


Figure 7. US Hourly Wage Changes
Residual \Wage Inequality
Males 90-10 Differential 1967-89



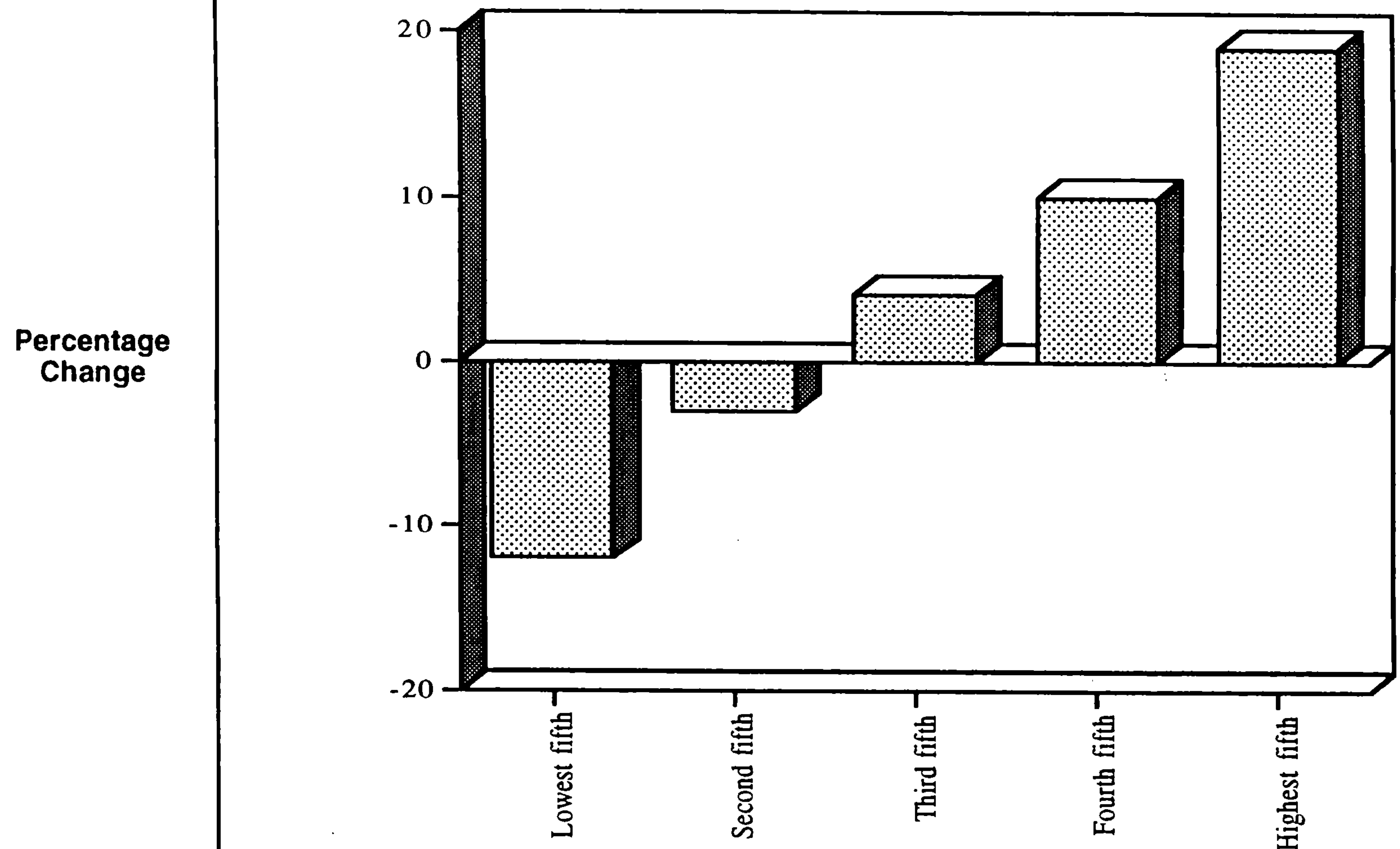
Source: Katz, Loveman, and Blanchflower (1993). "A comparison of changes in the structure of wages in four OECD countries." NBER Working Paper No. 4297

Figure 8. Share of total income to top 5% of families in U.S.



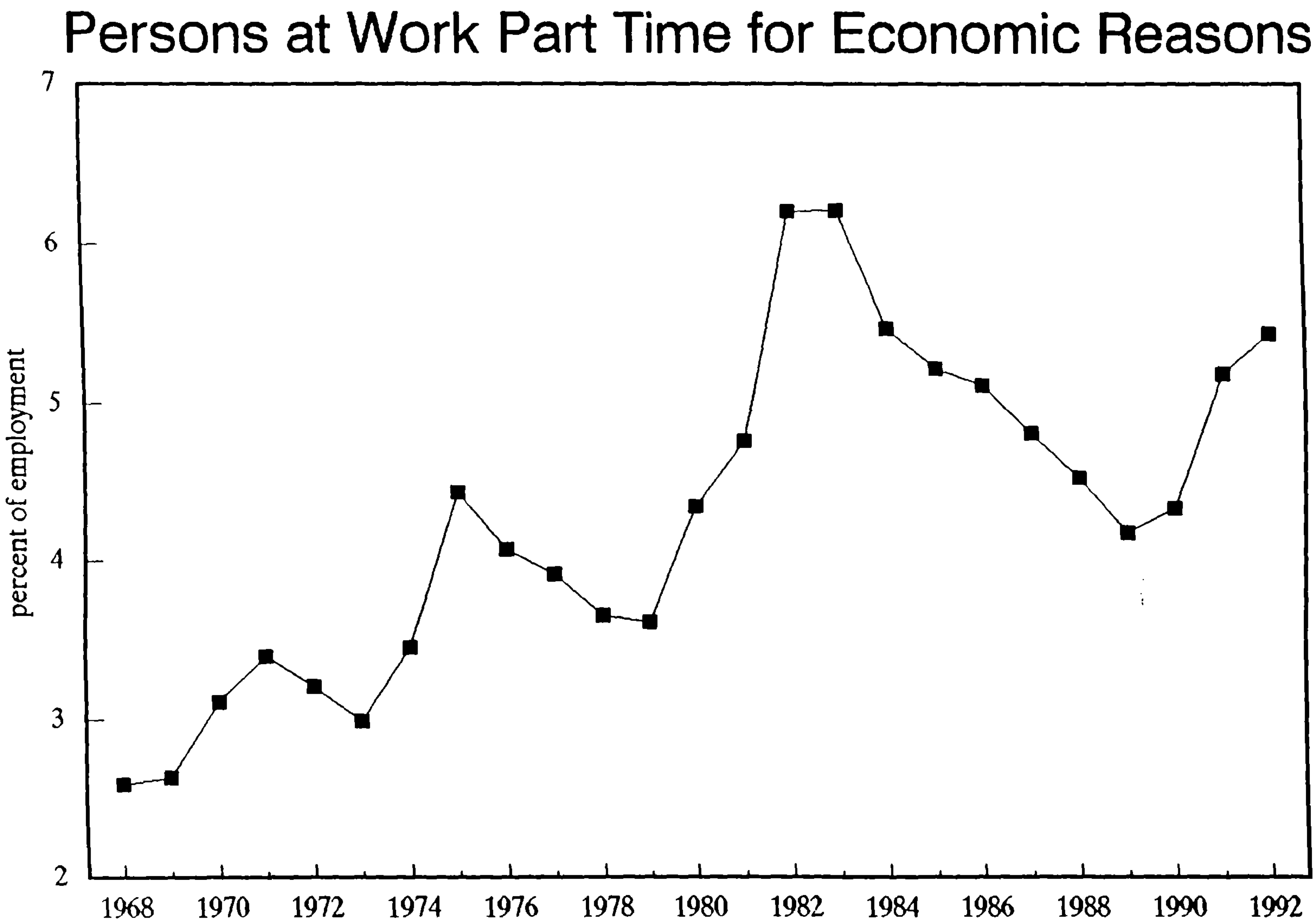
Source: David Cutler, and Lawrence Katz. "Macroeconomic Performance and the Disadvantaged." Brookings Papers on Economic Activity, vol. 2, 1991, pp. 1-74

Figure 9. Growth in Real Median Family Income (1973-1992)



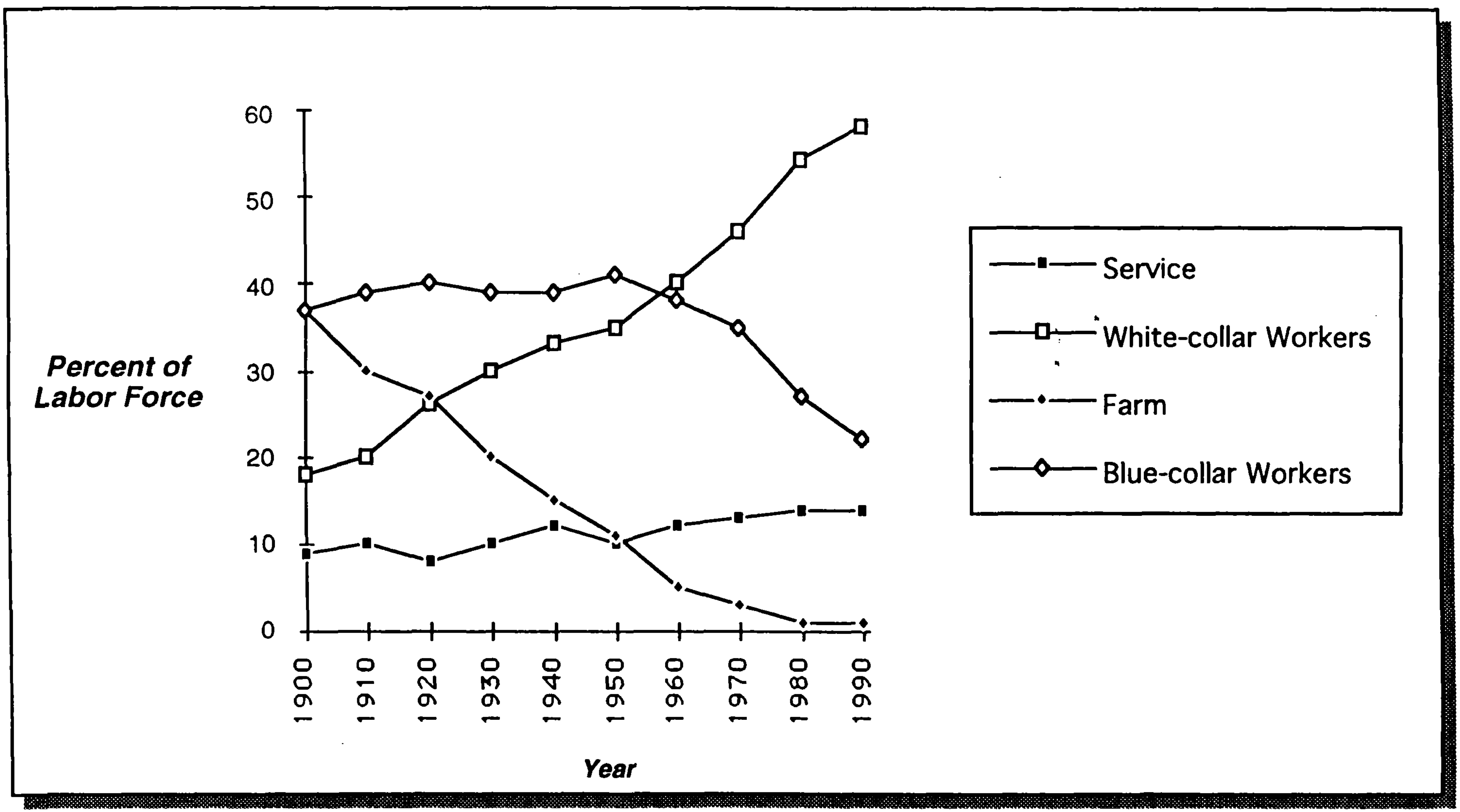
Source: Bureau of the Census

Figure 10



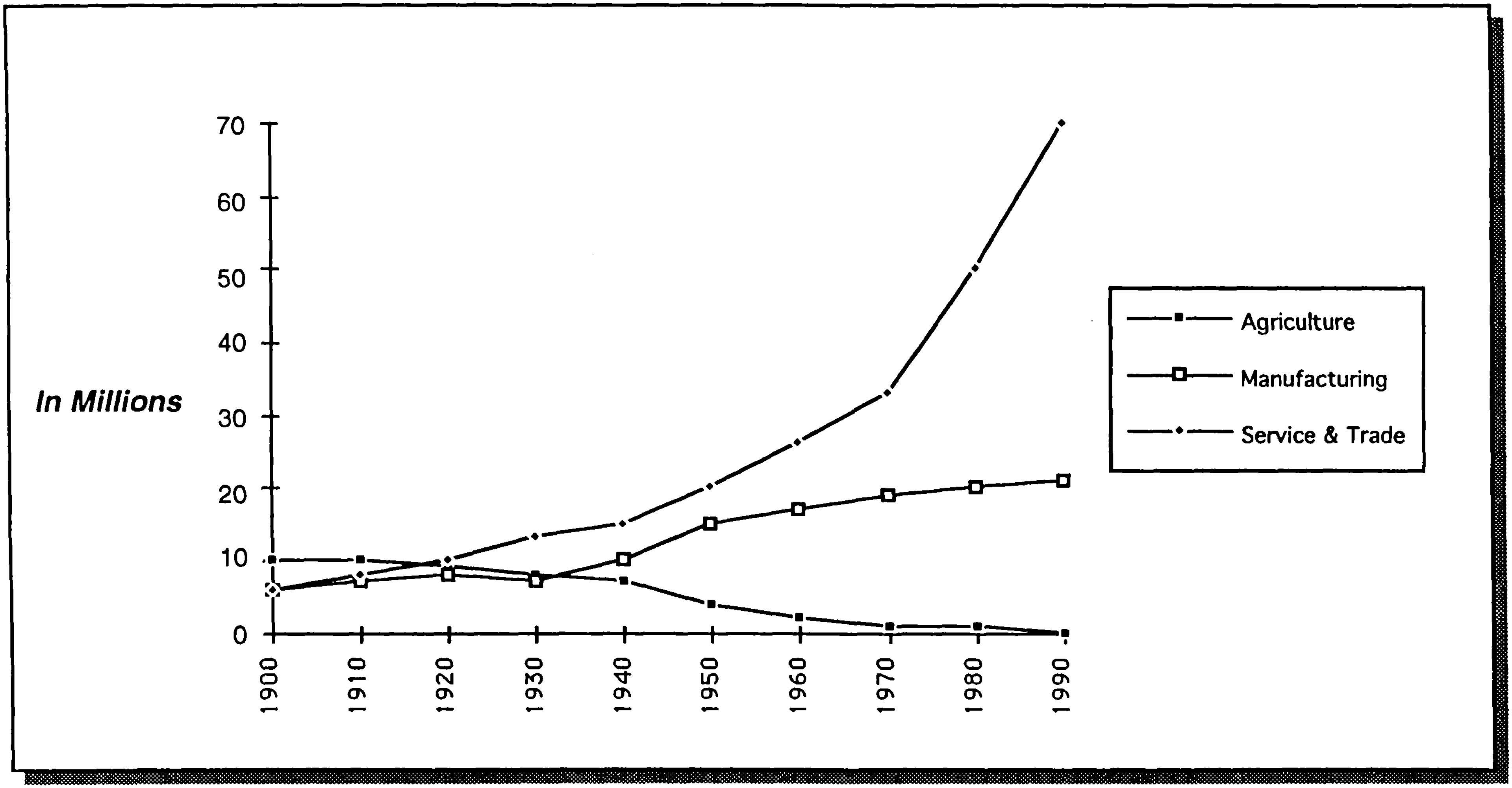
Source: Bureau of Labor Statistics

Figure 11
Occupational Composition of the U.S. Labor Force (1900-1990)



Source: Statistical History of the United States from Colonial Times. Employment and Earnings

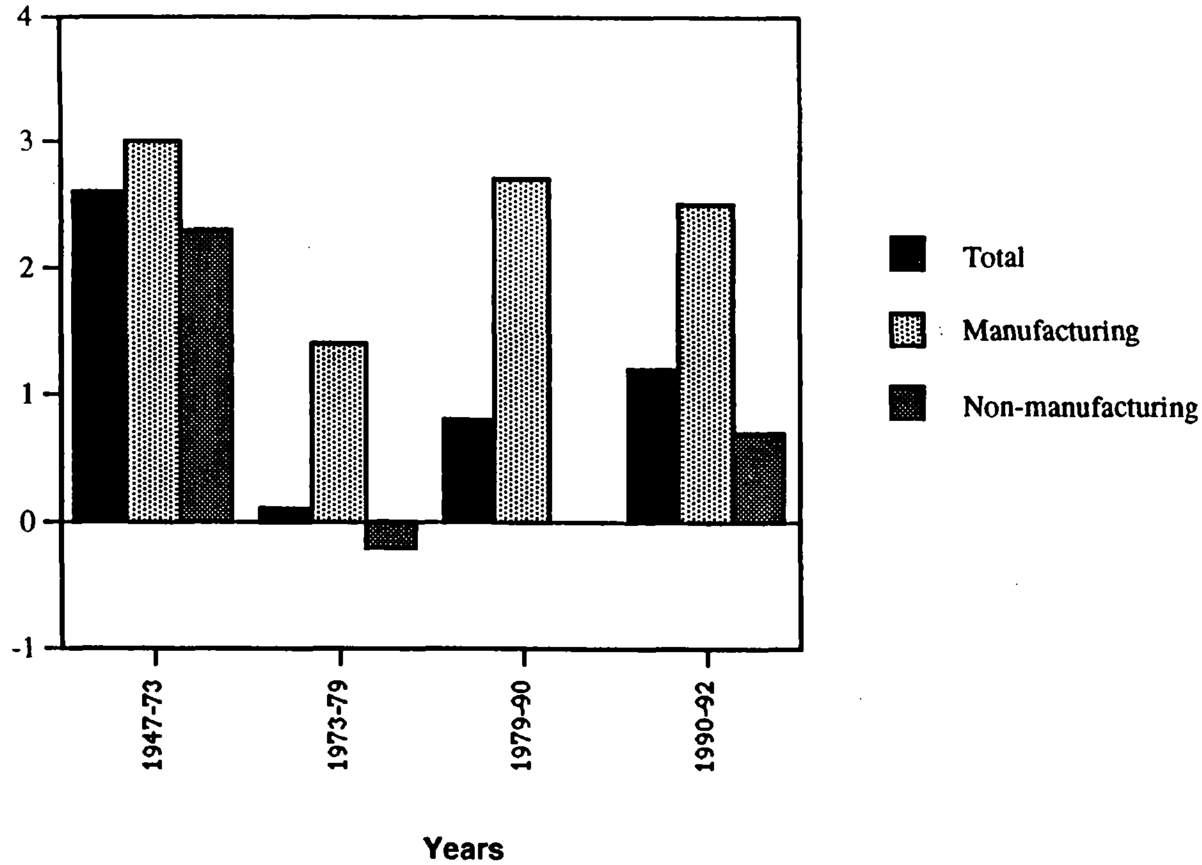
Figure 12
Employment by Industry
(1900-1990)



Source: Statistical History of the United States from Colonial Times. Statistical Abstract of the United States; Employment and Earnings; Monthly Labor Review.

Figure 13

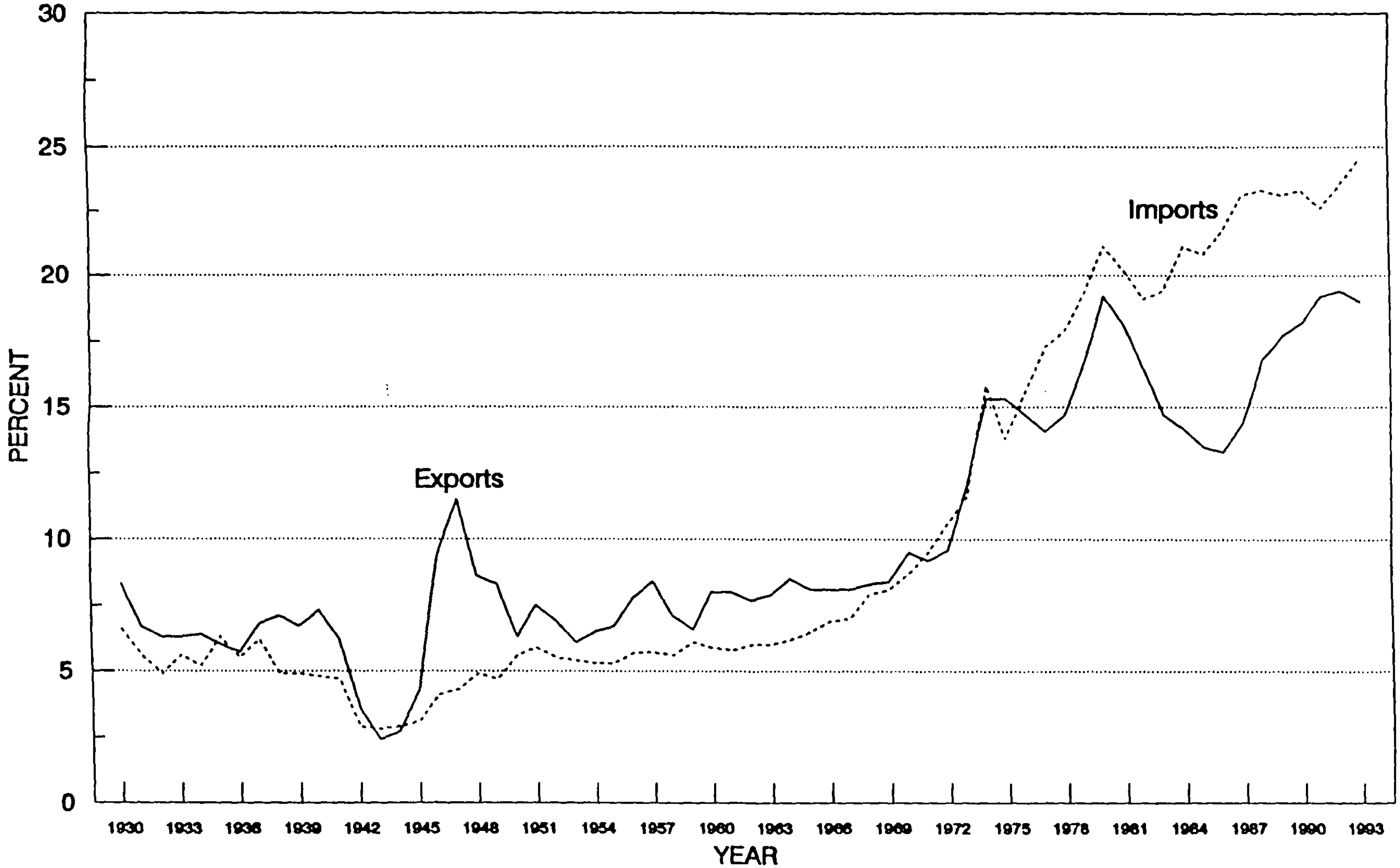
Average Annual Growth Rates for non-farm Labor Productivity (percent per year)



(Source: Frank Levy "Education and Skills for the U.S. Workforce." Based on Bureau of Labor Statistic data and author's estimates)

Figure 14

Merchandise Exports and Imports As A Share of Total Goods Production

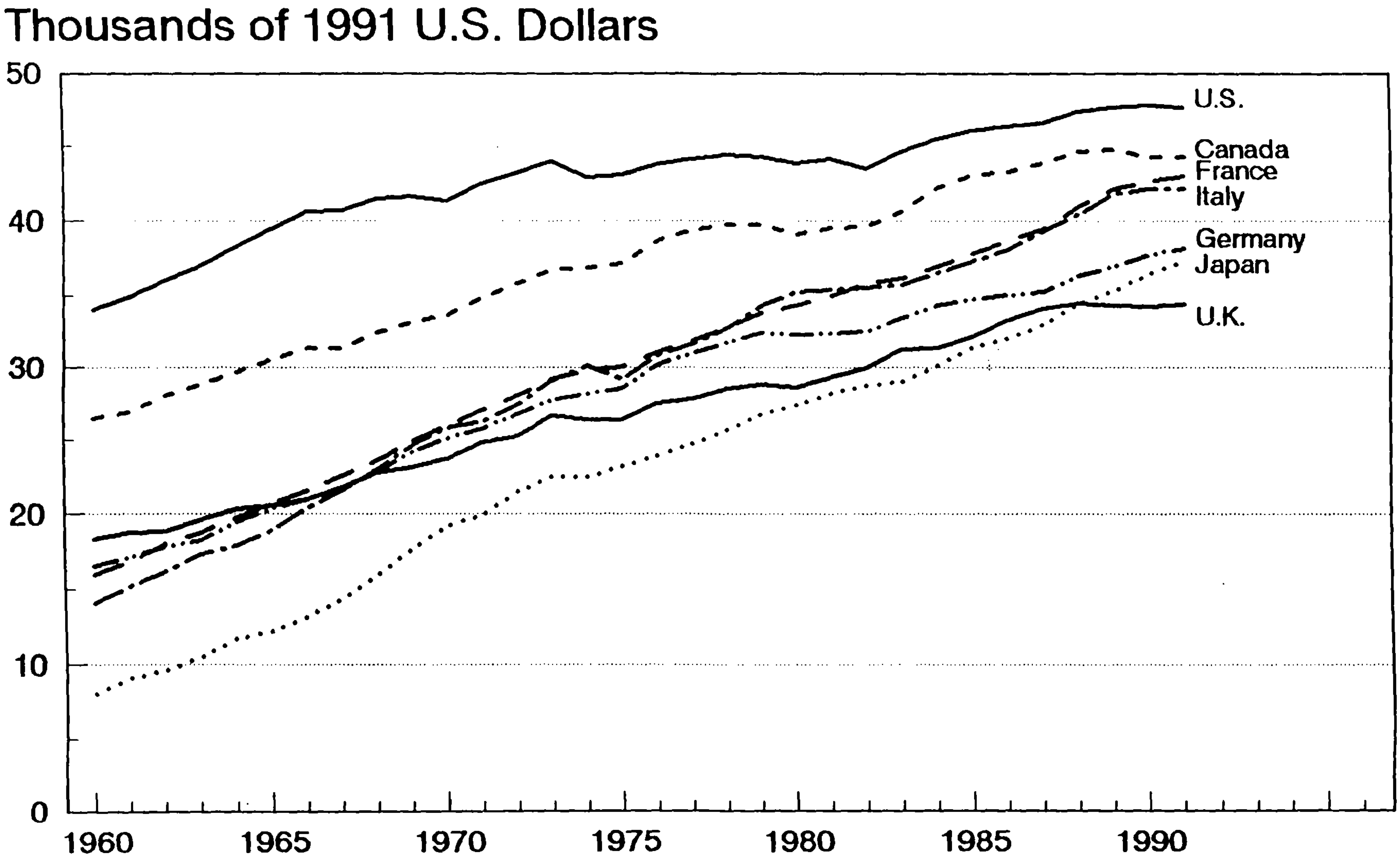


Source: U.S. Department of Commerce

Figure 15

Real GDP Per Employed Person

1985 Purchasing Power Parity



Source: Bureau of Labor Statistics

Figure 16

Labor productivity growth in the nonfarm business sector, selected periods

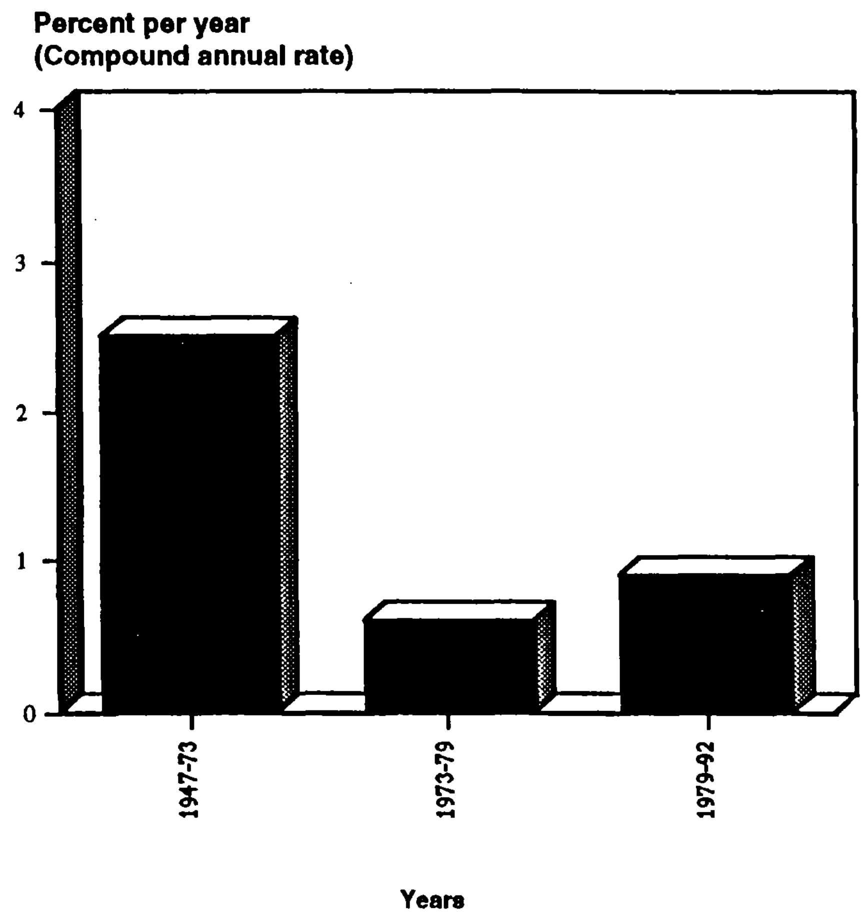
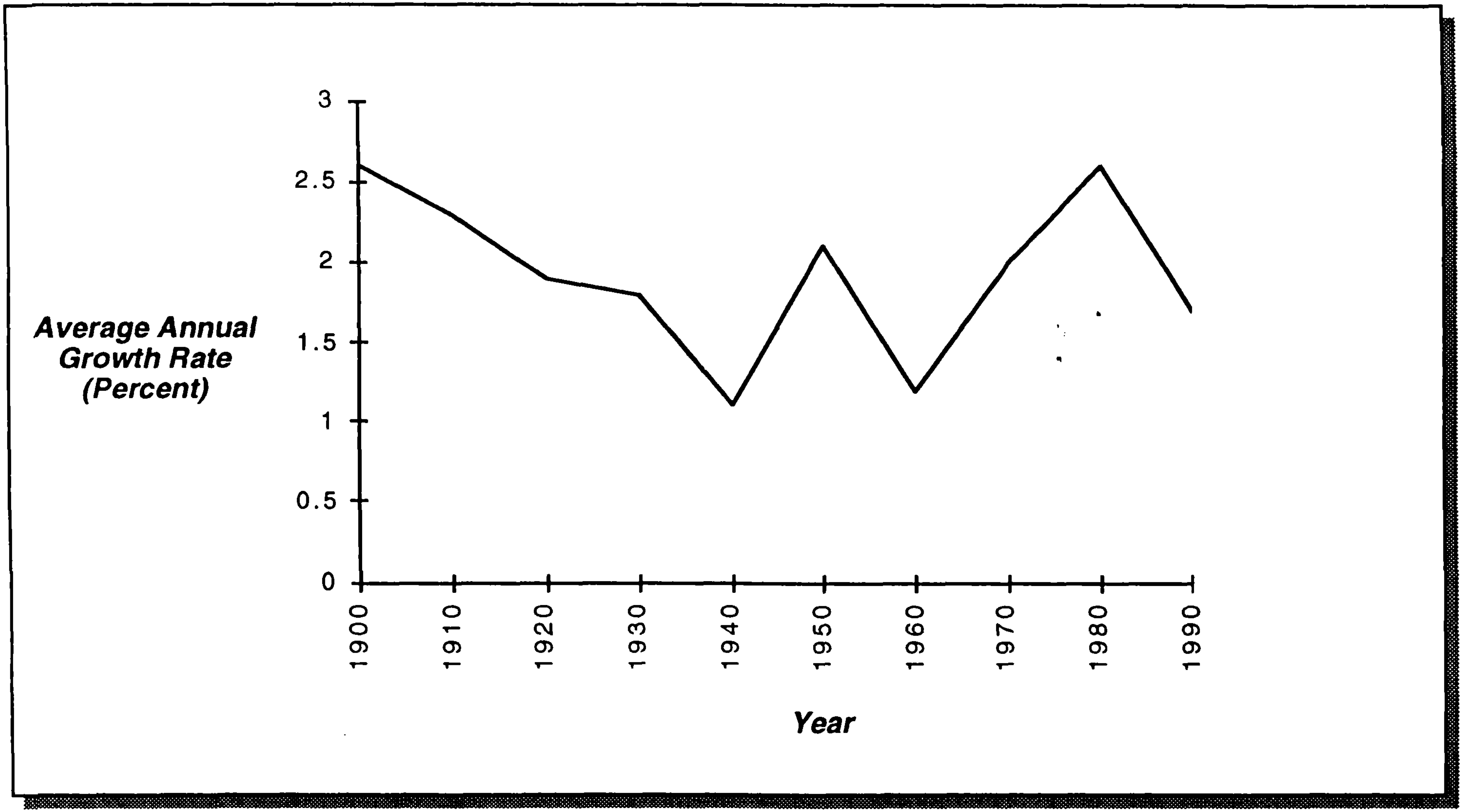


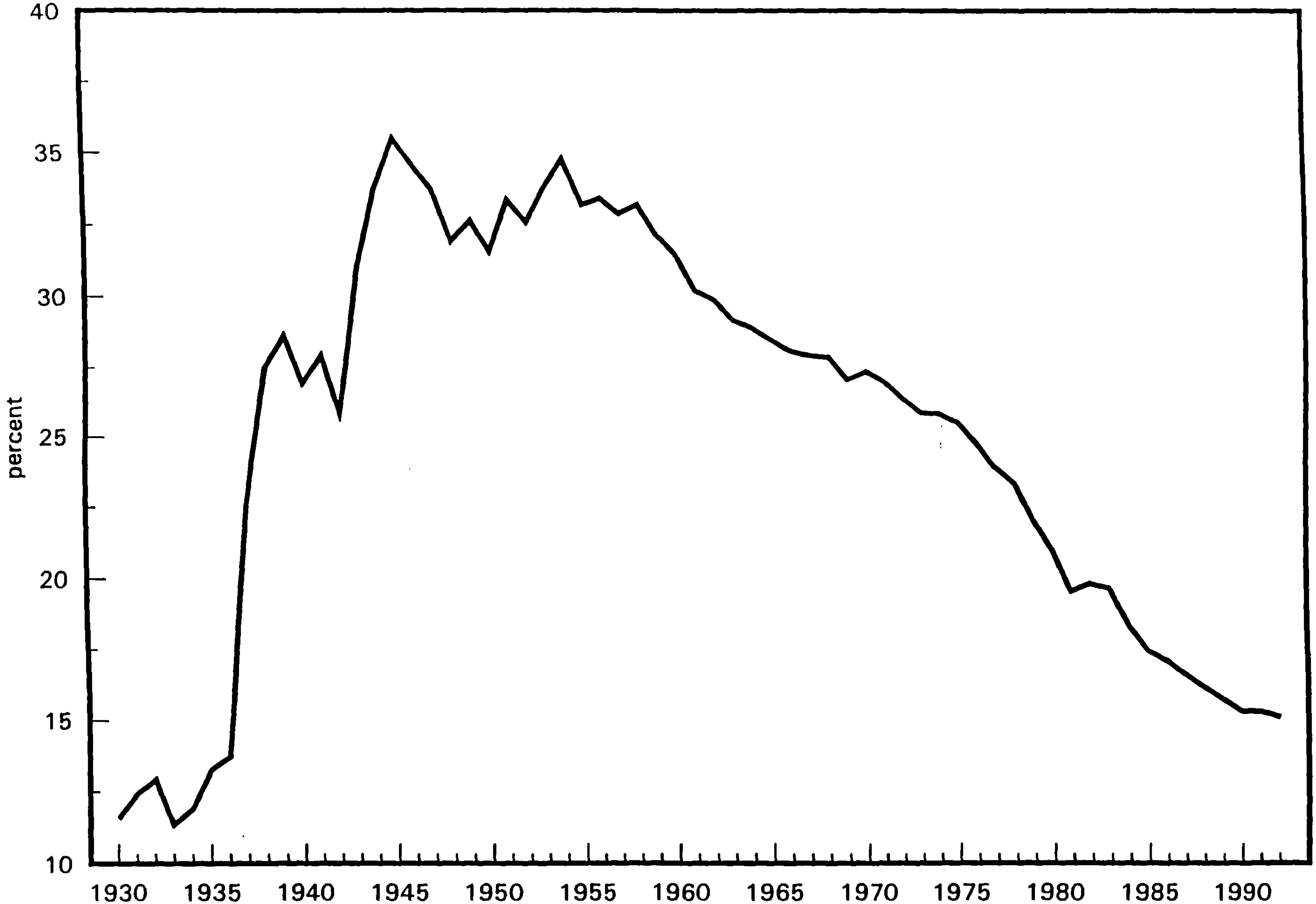
Figure 17
Growth Rate of Labor Force
(1900-1990)



Source:Statistical Abstract of the United States; Statistical History of the United States from Colonial Times

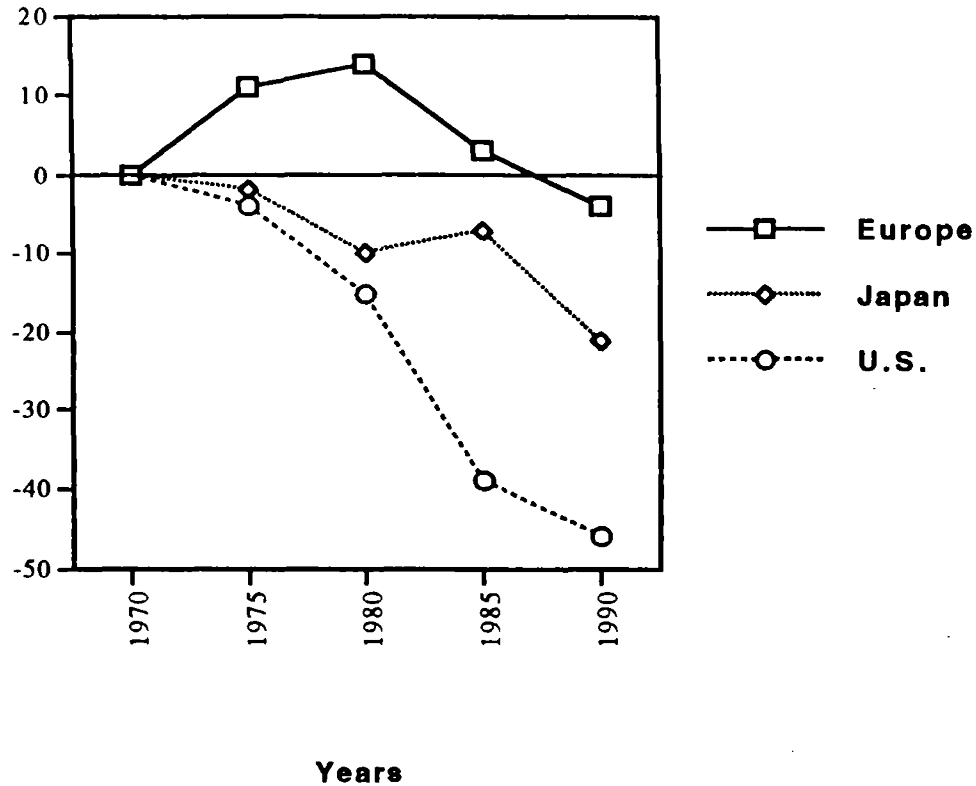
Figure 18

Union Membership as Percent of Total Nonfarm Employment



Sources: Bureau of Labor Statistics and Bureau of National Affairs

Figure 19. Trends in Unionization, 1970 to 1990: Europe, Japan, and the United States



Source: OECD, 1991; OECD, 1992c; U.S. Bureau of Labor Statistics, union membership data gathered from various sources; 1992; The Economist, Book of Vital World Statistics (NY: Times Books (Random House), 1990.

Figure 20

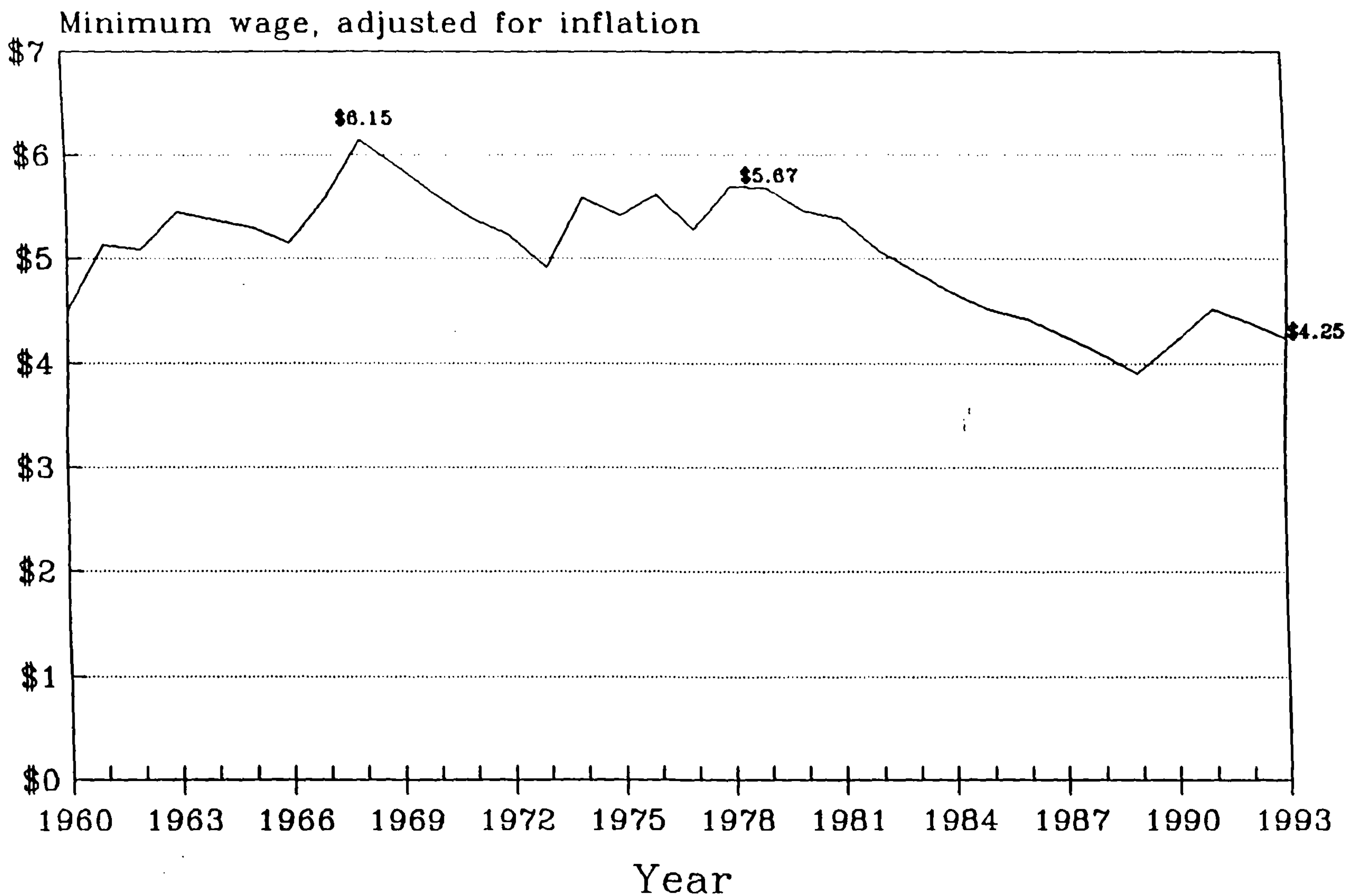


Figure in 1993 dollars

Figure 21-22
Low- and High-Poverty Schools, 1991

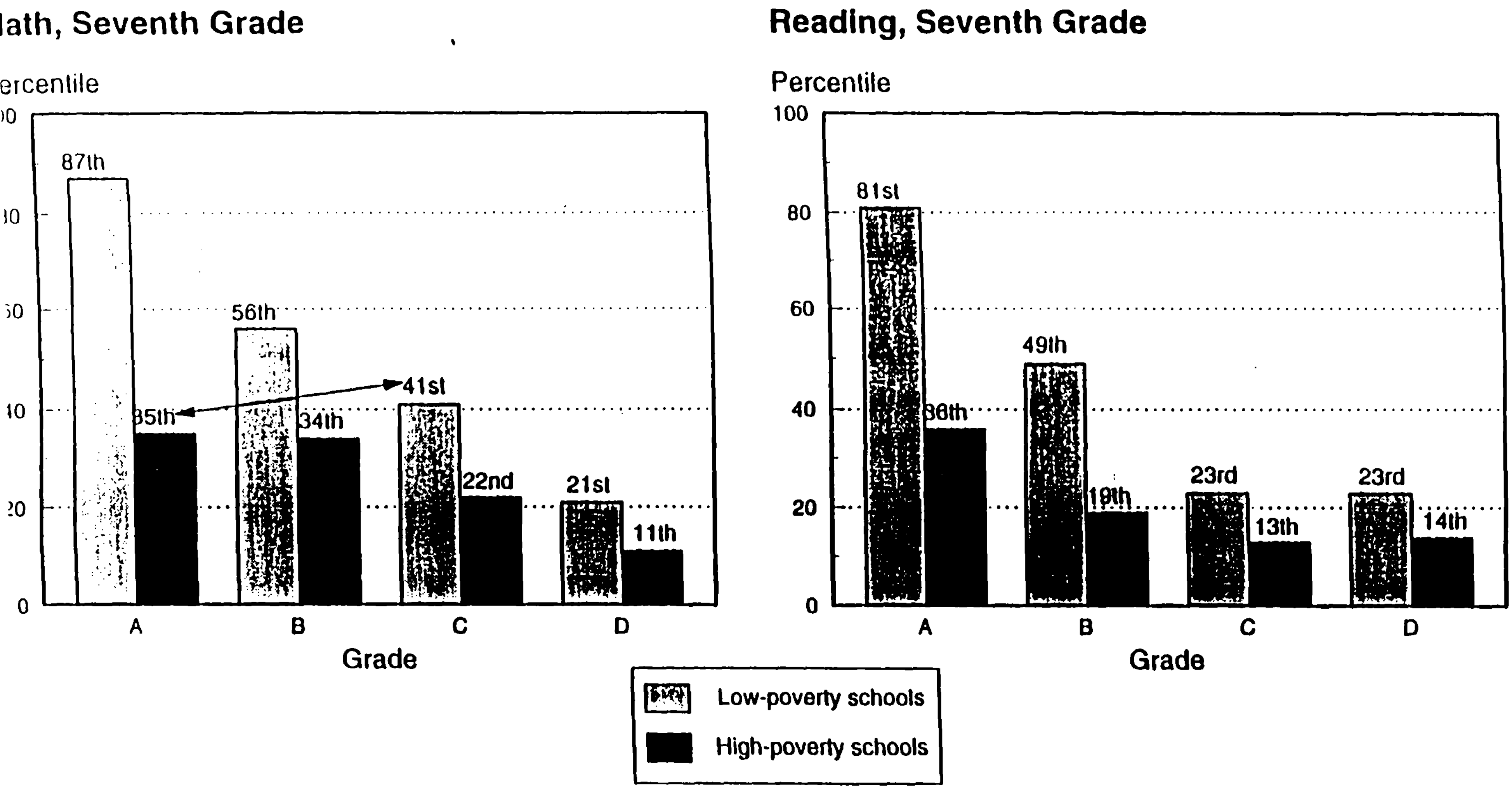


Exhibit reads: An A student in a high-poverty school would be about a C student in a low-poverty school when measured against standardized test scores.

Source: Prospects (Abt Associates, 1993).

Conclusion: President Clinton's comments on what we -- government, business, and all Americans -- are already doing to embrace change and compete in the new economy.

The American Dream hasn't changed. But the path to that dream has changed. For the workforce, the ticket to good jobs with growing incomes is good skills, the ability to learn new ones, and the ability to move to new or better jobs. For the creation of these high paying jobs, our American firms need to be world class, confident in the future, innovative, agile, and able to maximize their productivity, quality, and responsiveness to the diverse demand of consumers at home and abroad.

In 1992, the American people demanded the changes that will put us on the path to this high-skill, high-wage future. I want to tell you what we have done and what we are doing right now to strengthen the road to prosperity for all Americans.

What we are doing to build Competitive Companies and Good Jobs

In 1993, we cleared some larger obstacles from that path: a stagnant economy that wasn't creating jobs; a deficit that threatened to grow out of control; alarmingly low levels of business investment in new technologies that create good jobs; and stalled negotiations to open markets for our goods and services in North America and throughout the world. By dealing with these problems, we built the foundation for a lasting recovery and long term growth. And the American economy created almost 2 million jobs, 90% of them in private industry.

In particular, I have made trade and technology policy key elements of our economic strategy because they are engines of growth, job creation, new industries, and higher standards of living.

Trade: Our willingness to fight for trade initiatives last year -- like the North American Free Trade Agreement and the new GATT agreement -- should make it clear to the world that America will lead the charge against global recession and the pressures for retrenchment that it has created, not just here in this country, but in all the advanced nations of the world. Years from today, Americans will look back on these months as a moment when our nation looked squarely at a new economic era and did not flinch from its challenges.

Over the first ten years, our new GATT agreement could create 1.4 million American jobs and boost the average American family income by $1,700 a year. Over a decade, it could expand the world's economy by $5 trillion. This, my fellow Americans, is the answer to 20 years of stagnant wages for the hard-working middle class.

.I fought for NAFTA because I believe it, too, will create jobs. And because I believe it will improve the quality of our life, and because I believe that it sends a message that the world needs to hear: The Cold War may be over, but the United States is not about to pull up its stakes and go home. We will remain engaged in the world economy. NAFTA is another building block in our efforts to expand world economic opportunity and global growth; and in the process, to promote jobs and opportunity for Americans.

Technology: In the first year, we won tax incentives for investments in R&D and new businesses, liberalized export controls, shifted federal resources toward basic research and civilian technology, and aggressively promoted defense conversion.

Our Technology Reinvestment Project, for example, helps defense firms to make the transition to a commercial economy. It takes the military technologies developed with American dollars during the Cold War and puts them to use in the commercial economy. It will create thousands and thousands of jobs in the years ahead all across the nation. It's just part of a defense conversion plan that totals $20 billion in new investment over 5 years.

We also had a unique cooperation between the our National Security team and the Commerce Department led by Secretary Brown which removed Cold War controls on high technology exports. For computers and telecommunications exports alone that is $37 billion dollars of additional exports and new jobs for Americans.

All of our technology initiatives, such as the promotion of the National Information Infrastructure, the development of a Clean Car, and investments in manufacturing technology, will require a new partnership between government, industry, labor, and academia. I am committed to building this partnership and tearing down the walls that have prevented meaningful cooperation in the past.

High Performance Workplace: Some of the most successful public and private organizations in America recognize that the new economy requires a new workplace. In July last year I met with business leaders like Motorola and L.S. Electro Galvanizing that have shown that you can grow and prosper by treating workers like indispensable partners. They understand that their greatest competitive advantage comes from a skilled, motivated, and dedicated workforce.

For labor the challenge is the same: to see themselves as sharing common interests and responsibility for improving quality and profitability. If the labor people do it and then the government ought to do right by them, and by business. And business ought to do right by their workers. There is no easy answer here but if we all treat each other better we're going to come out ahead. If unemployment is high we diminish the number of customers with money in their pockets to make the American economy go. We are truly in this together.

Secretaries Reich and Brown have sponsored a number of initiatives to forward this vision of the high performance workplace including the joint business-labor discussion in Chicago, the business-labor commission on reforming our labor laws to support cooperation instead of conflict.

<u>What we are doing to offer Lifelong Learning and Job Changing Tools</u>

Our challenge this year and in the future is to build on the strong economic foundation we have worked hard on last year. We need to make tough choices -- to keep the deficit headed down and make room for disciplined investments that improve the skills, flexibility, and productivity of our people.

Our plan does just that. We propose to cut or eliminate over 300 government programs and reduce the deficit according to the tough targets we set last year. At the same time we are proposing a budget that increases our investment in lifelong learning by 23% by getting rid of some things and investing in others.

Increasing our investments in our people, as we have argued, is the most important thing we can do to safeguard our democracy and the American way of life as we move forward into the new economy. Only by equipping all Americans with the knowledge and flexibility to go after high skill, high wage jobs can we avoid a decline into more poverty, more crime, and a very divided society.

In 1994 we are proposing a comprehensive agenda for lifelong learning and job flexibility, based on unprecedented cooperation between the departments of Education and Labor and Secretaries Riley and Reich.

I want to lay out my seven-point agenda for lifelong learning and job flexibility. First, to help every child begin school healthy and ready to learn. Second, to set and achieve world-class standards in public education. Third, to open the doors of college opportunity to every young man and woman who is eager and able to do college work. Fourth, to expand opportunities for our young people to serve their communities and their country, while earning money for their education. Fifth, to provide new learning opportunities for young people who are going from high school to work. Sixth, to change the unemployment system to a reemployment system and help working Americans change jobs more easily. And, seventh, to challenge every sector of society to accept greater responsibility for lifelong learning.

My job is to challenge every American to embrace change; to invite the Congress to continue its cooperation in enacting the lifelong learning agenda; and to call on all Americans -- parents, teachers, students, business, and workers -- to do their part.

Early Childhood: We all know that parents are the first and most important teachers. But sometimes government can help them do what they do best. That is why our agenda for lifelong learning begins by investing in our youngest children. If we give our children a healthy start in life, they will be more likely to succeed in school and become good workers, good parents, and good citizens, and less likely to drop out of school, to stay out of work, to break the law and go to prison.

That is why we are increasing our investment in child nutrition and immunization and investing in not just a bigger Head Start but a better Head Start. Our budget will serve almost 850,000 children this year -- and provide new opportunities for the very youngest children.

Goals 2000: From the day they start kindergarten to the day they graduate high school, we owe our young people the best education in the world. Our states and communities have always taken the lead in public education, but the federal government can do more to help. With Goals 2000 -- the foundation of my education plan -- we will set voluntary goals for our public schools, and give them the flexibility and the tools they need to meet those goals.

Goals 2000 encourages states and communities to learn from each other. It empowers individual school districts to experiment with ideas like public school choice and charter schools. It makes one overriding demand of every state, every district, and every school: Are our children learning what they need to compete and win in the global economy?

ESEA: Building on Goals 2000, we favor dramatic reforms in the Elementary and Secondary Education Act. We will insist on the same high standards for all our students, encourage public school innovation and choice, build stronger links to parents and communities, and target resources where they're needed most.

Our efforts to raise standards and focus resources have sparked some controversy. But the status quo just isn't good enough. As the House debates the ESEA, we will fight for the fundamental change our children need.

Safe and drug-free schools: To make our schools better, we must make them safer. Every day, more than 160,000 students stay home because they're afraid to go to school, and tens of thousands go to school carrying not just their lunches but knives or guns. Our teachers cannot teach, and our students cannot learn, when so many of are scared, and so many are armed.

Our Safe Schools Act helps schools reduce violence by adding security, removing weapons, and teaching young people to solve problems peacefully. And our drug strategy provides more education to help them stay away from drugs and guns and gangs.

Student loans: Last June, when I addressed the commencement at Northeastern University, I met Doug Luffborough, who delivered the student address. His mother, Elsa Luffborough-Mensah, works for low wages as a housekeeper. He told her that he would forego college to help support his two younger brothers and their sister. But his mother insisted that he go to college, and he worked his way through college. We all can learn from the advice Doug Luffborough gave his classmates: "Never say, 'I could have, I should have, I would have.' Always say, 'I can,' 'I will.'"

To help young people like Doug, last year I proposed -- and Congress enacted --the most significant student loan reform in a generation. And I thank you for helping it pass.

By cutting through middlemen and layers of bureaucracy, this new direct lending program reduces fees, interest rates, and monthly payments for millions of borrowers. It gives every student the choice of repaying loans as a small percentage of income over time. It will decrease the debt burden that crushes too many young people struggling to begin careers and start families -- and discourages them from spending a few years at lower-paying jobs serving their communities. And it will save the taxpayers more than $4 billion in just its first five years.

Pell Grants: While we've reformed student loans, we've also strengthened grants. Our Administration inherited a Pell Grant program under severe pressure -- and $2 billion in arrears. I am pleased to report that, if Congress accepts our proposals, the shortfall will be eliminated by the end of the next fiscal year. At the same time, the number of student recipients will increase to 4.1 million -- the most ever; average awards will increase; and, for the first time in four years, the maximum benefit will increase. For millions of our most deserving students, Pell Grants are the road to opportunity -- and, in every way we can, we're widening that road.

College loan and grant programs have been enacted with the best of intentions, but, too often, they have been abused, not only by students but by colleges and trade schools. To maintain public confidence and support, we must work together to root out fraud and default. Fortunately, Congress has given us the tools, and we are beginning to use them. We'll listen attentively to your suggestions for reducing federal intrusion and red tape. But, make no mistake: we will faithfully implement and vigorously enforce the law.

Equal opportunity: We must do even more to open the doors of opportunity. Last fall, I signed an executive order strengthening the partnership between the federal government and historically black colleges and universities. Last week, the Department of Education issued guidelines that lifted the cloud hanging over college scholarships for minorities. And, later today, I will sign another executive order to advance educational excellence for Hispanic Americans. In education, opportunity and excellence can go together; they must go together; and we are working to ensure that they will go together.

National Service: Last year, we provided new opportunities for tens of thousands of young people who want to contribute something to their communities and earn money to educate themselves. Our national service program, Americorps, will send 20,000 young people out across our country, helping our police stop crime and violence, tutoring the young and keeping company with the old, organizing neighborhood cleanups and conserving national parks.

National Service is more than a program; it is a challenge. And I thank the colleges and universities that are meeting the challenge; for instance, Smith College, which makes community service a requirement for graduation; Spellman College, which is forming real partnerships with communities throughout the Atlanta area; and Hampshire College, which matches the assistance that the national service program provides for young people who join Americorps.

For every American who needs to find a first job, a new job or a better job, we propose a revolution in education, training, and help with changing jobs.

School-to-work transition: America has the best system of higher education in the world, but just about the worst system for helping young people move from high school to work. For the half of our young people who do not go on to college -- and the almost 75% who do not get a four-year college degree -- we propose a system to help them move from school to work.

We call for a new kind of education and training that connects the classroom and the workplace and removes the artificial distinction between the academic and the practical. Students will learn practical problem solving, in the classroom and at job sites. For at least a year after graduating, they'll get more training, in workplaces and community colleges.

The education and training we propose will help young people become better students and better workers. We know it can increase earnings. And a report released this month shows that it increases interest in school as well.

Skill Standards: And our proposal for voluntary national skill standards, which is part of Goals 2000, will enable every young person who learns a skill to get a nationally recognized credential. That is good for young men and women, and good for employers who need skilled workers but don't always know how to recognize them. In the emerging economy, a B.A. degree should not and must not be the only ticket to a good job and a good livelihood.

Last year, I visited a program in Delaware, called Opportunity Skyway, where high school students are learning skills that will help them get jobs in aerospace, from aircraft maintenance to airline piloting. I want to offer that kind of opportunity to millions of young people. This month, our School-to-work Opportunities Act was approved by the Senate after passing the House. I look forward to signing it into law -- and making it a reality.

Reemployment Act: Just as we need to train our young people, we must retrain millions of workers who have been displaced by transformation to the new economy. Some jobs are eliminated by new technologies, international trade, corporate restructuring, and reduced defense spending--but many more new jobs are created in the new and growing industries which emerge.

The challenge is helping workers make better transitions from old jobs in less competitive industries into new jobs. We need to face the new realities of our new economy: Most workers who are laid-off from their jobs won't get their old jobs back again. Many laid-off workers who find new jobs can end up working for lower wages. Younger workers can look forward to changing jobs seven or eight times in their lifetimes. We can help Americans to make better job changes.

Within weeks, we will introduce the Reemployment Act to consolidate different job training programs and convert the unemployment system into a reemployment system. It will create one–stop job centers where unemployed workers can get counseling and assistance and learn about new job opportunities, the skills they require, and the best sources of training.

Last month, I attended a Labor Department conference on job training and retraining. I met Deb Woodbury, from Bangor, Maine, who lost a factory job and learned new skills as a marketing sales representative. Cynthia Scott, of San Antonio, went from welfare to a training program in nursing and a job in a hospital. And John Hahn, of Niagara County, New York, was laid off from a job he had for 28 years and learned new skills for a new career as a biomedical technician. He told me he's living proof that "you can teach an old dog new tricks."

Health Security Act: Another important element in helping people make better job changes is health security. How can you be secure enough to change, to take on new challenges, to start new businesses, to take new risks, if you think that you may have to let your family go without basic health care? About one–third of working Americans say that they are afraid to change jobs because they could lose their healthcare, because someone is sick in their family, or because there is a pre–existing condition that will keep them from getting new health insurance. This damages our national economic competitiveness because our workers are less flexible, less willing to take risks, and invest in themselves.

Personal Responsibility

Lifelong learning is more than an agenda for government; it is an ethic that every American must embrace.

Parents, schools and teachers: I know that middle class families are hard pressed not only for money but for time. When both parents work outside the home -- and some work overtime or hold down two jobs -- it is difficult to go to PTA meetings, to get to know the teachers, to tell their children to watch less TV, and help them do their homework. But it is more important than ever. With all the other influences on our children, parents need to help them learn right from wrong, to aim high, and to believe that they can be do anything they want to do, and be anything they want to be, if only they work hard. And, in return for that commitment to their children's education, parents have the right to expect that the schools will offer quality education, in a safe and secure environment.

Students, business, and workers: For our young people, the challenge is to believe in themselves, take learning seriously, and build their futures. For our companies as for our country, the challenge is to learn from success stories like Saturn and Xerox that invest in **all** their workers' skills and empower them to do their best. And, for our working people, the challenge is to seize the opportunities for training and retraining, because the only job security in the new economy is the ability to learn new skills.

I have asked your support for a seven–point agenda of lifelong learning for every American: First, preparing our children for school. Second, setting higher standards in our public schools. Third, expanding college opportunity. Fourth, encouraging national service. Fifth, providing transitions from school to work. Sixth, encouraging adaptability by changing the unemployment system to a reemployment system. And, seventh, as we offer more opportunity for every American, demanding more responsibility from every American.

Our agenda for lifelong learning is bold. It is comprehensive. And it is absolutely necessary to achieve our goals of higher wages, greater opportunity, a more competitive economy, and a stronger American community.

Education has always been important for democracy. Democracy is always a gamble -- at every election, in every crisis, at every turn of the road -- because it requires that a majority of the people have enough information in the proper context with a high enough level of security to make the right decision, sometimes under the most arduous circumstances. We are now being called upon to make a lot of those right decisions. And one of those right decisions is the simple question of how we can guarantee the success of this democracy into the 21st Century. It begins with the framework we have discussed here.

I ask for your support, whether you are in working in business, in government, or in the home, and I thank you for what you are doing to make the American Dream real for so many millions of Americans.

THE WHITE HOUSE

WASHINGTON

March 22, 1994

MEMORANDUM FOR GENE SPERLING
BILL GALSTON

FROM: BONNIE DEANE
PAUL DIMOND
MIKE SCHMIDT

SUBJECT: Options for Publication of the Workforce White Paper

We would like to publish a White Paper the Policy Document of the Workforce Policy Group. This paper was developed with Secretaries Reich and Riley in a working group chaired by Bo Cutter with six agencies (DOL, DOC, DOEd, TRS, CEA, and OMB). A draft of this paper was cleared and released as the background document for the G7 jobs conference document. There are, however, several decisions to be made regarding the nature of the paper, its audience, and the manner of publishing it. These decisions are summarized below. We need your input on each of these decisions.

I. <u>What is the purpose of the paper?</u>

Option 1) A statement for communicating and explaining our employment and jobs initiatives.

Option 2) An assessment of the changing workforce: where we have been, where we are going, and, most important, what we should do about it--embrace change.

Recommendation -- Option 2: We should emphasize the background and analytical nature of the white paper. We should not position this as a compendium of policy initiatives for two reasons: This document does not fulfill that mission adequately; and the Department of Labor is writing a White Paper on jobs which does summarize our initiatives.

II. <u>Internal v. External Publication:</u>

Option 1) Publish the paper as a memo within the Administration providing a consensus document for policy staff and other federal employees at all the agencies.

Option 2) Publish the paper professionally for a public audience. This serves the function of the internal document as stated above, plus it communicates to the public that we have thought carefully about the issues and have a strategic direction not just a collection of programs.

Recommendation -- Option 2: The paper will become public in either case and will serve both purposes more effectively if it is cleared and used as an open document for public discussion. We should be proud of a document which articulates the need for a skills-centered response to the changes in the economy that effect the workforce.

III. Level and Venue:

The workforce paper could be introduced with much fanfare by the President, quietly without any scheduled event, or somewhere in between. Here are a few options:

Option 1) POTUS uses the Workforce White Paper as an impetus to give another major speech on jobs issues and the need to build skills, embrace change, and choose our future. He could underscore many of the points made in his G-7 speech and his ACE speech.

Option 2) POTUS gives the White Paper to a Walter Cronkite, Hedrik Smith, or Peter Jennings as the basis for a special interview or discussion.

Option 3) Vice President or the Secretaries of Education, Commerce, and Labor could host an event to highlight jobs issues, how Americans are striving to build skills, transform companies, and find new and better jobs. Such an event could be oriented toward academics and expert commentators or centered around the ordinary people who are coping with change. The event could be anything from a small discussion to a public speech.

Going outside the beltway would probably be helpful. According to the G-7 feedback, the press response outside the beltway was much more positive and interested in jobs issues. The Washington media is less likely to be receptive.

Option 4) Issue the paper from the White House and/or the agencies, but without an event or any fanfare. This may or may not minimize the opportunities for negative spin.

Recommendation: Options 1 or 2 would put the President out front again on the jobs issue and offer the Workforce White Paper as background/discussion material, possibly in conjunction with other background papers like the Technology White Paper and DOL's jobs paper.

IV. Audience & Vetting

Regardless of the decisions made above, the document will be available to the press once it is published internally or externally. It must be read carefully to ensure that there are no statements which could be taken out of context, misinterpreted, or appear to conflict with our policy statements and goals.

> Recommendation: Waldman, Sperling, and Dreyer should sign off on the content as well as the proposed launch strategy before publication.

CC: Michael Waldman
David Dreyer