

A Framework for Economic Growth and Good-Job Creation

Peter A Creticos, Ph.D.

Every period of fundamental change is marked by profound challenges and great opportunities. The Great Depression was the beginning of one such period, but unlike prior times when markets were left to sort things out, the federal government stepped forward in an effort to smooth the transition from one economic order to another. Since then, public institutions at all levels have intervened to repair failing markets using an array of new laws and regulations, new public services, financial subsidies and incentives, worker transition programs, and new information resources.

Another fundamental change is occurring in the global economic order – a change that began during the latter decades of the last century and that was brought about by an increasingly more narrow focus by each economic stakeholder on promoting their own self-interests. This was punctuated by the recession and banking crisis that began in 2007 and that continues to reverberate around the globe. While the public’s attention is fixated on finding the culprits for bank failures and home foreclosures, the collapse of the domestic auto industry in the U.S., and the sovereign debt crises overseas, what is lost is a broader appreciation that the institutions and people who play direct roles in these problems act often in accordance with perceived rules that prompt them to maximize gains for themselves and the groups they serve without regard for the broader economic and social consequences. These behaviors are aided by near instantaneous communication of enormous volumes of information, rapid differentiation, diffusion and expansion in producer and consumer markets, and significant compression in the cycle of invention to obsolescence. John Zysman *et alia* suggests that this is a result of the “algorithmic revolution” – the application of rule-based information technology tools to service [and, I may add, manufacturing] activities¹ - which portends that a machine will eventually replace any human function that can be boiled down to conditional logic and a set of instructions.

A blunt remedy is to legislate the rules of reward and punishment and to attack the technology that appears to be the instrument of the problems, however these actions are not so simple and do not lead to uncomplicated results. For example, a country or individual state may change their own rules regarding such matters as

¹ **The Digital Transformation of Services: From Economic Sinkhole to Productivity Driver** (BRIE Working Paper 187). April 6, 2010. John Zysman, Stuart Feldman, Jonathan Murray, Niels Christian Nielsen, Kenji Kushida. University of California-Berkeley.

executive pay, corporate securities, bank reserves, environmental pollution and union contracts – to name a few areas of hot public debate – and do nothing more than shift the nexus of economic power to places that impose fewer restrictions. This frequently prompts calls for collective action among states or countries, but the reality is that this often is stymied by the absence of broad public willingness to forgo short-term gains or to risk that some will work together and others will not.²

The rapid pace of technological development also produces many-sided results. One of great benefits of the algorithmic revolution can be seen in the unprecedented growth of wireless communications in developing economies due to the great reductions in the cost of goods and services and rapid growth in quality and capacity in the telecommunications sector. At the same time, many good jobs in highly developed economies are being replaced by software code and exquisite hardware. While these losses are tragic, the technologies that are driving these changes also require a growing breed of workers who can apply uniquely human capabilities in the creation and production of new goods and services – and this provides an opening for expanding even the most developed economies.

Two challenges arise in the context of workforce and economic development policy as we face this new reality: *First*, we must be sure that the legacy institutions and public policies developed over prior periods are still useful in an environment that favors knowledge, agility and remarkable foresight. For example, we must ask whether information systems are adequate to tracking current conditions in near real time. We must also assess whether the models that help us project the future are, in fact, useful to business, workers and the agencies that support them. We must determine whether workers and businesses are afforded the resources – both financial and substantive – to follow through on their decisions. We must also know whether the network of providers, ranging from business extension services to employment and training institutions, are able to meet new demands imposed by employers and job seekers.

In the workforce arena, people living in democratic societies expect labor markets especially to be fair, efficient, efficacious and transparent. All participants in the market – business, workers, educational and training providers, and intermediaries – should have access to timely, accurate and comprehensive information, interpretative tools and supports to deal effectively with changing labor and economic market conditions. All who want to work must have equal opportunities to do so safely and earn no less than a living wage. Employers must know that the value of the work that they receive is commensurate with what they are paying. The market itself must do a good job of matching supply with demand and be sufficiently

² I am reminded of law enacted in the 1980s by the Illinois General Assembly requiring car dealers to close on Sundays. The state's auto dealers association promoted this legislation in behalf of their sales people who were seeking a day off since it could not be assured that every dealer would voluntarily close. The association decided that it would be easier to have the state impose the restriction even though it limited the freedom of its members.

flexible to respond to unexpected shifts due to innovation and sudden changes in market conditions.

The *second*, more profound challenge is to design and implement new policies and programs that blend workforce and economic development and that will create a competitive advantage for American businesses and will improve the quality of life for all people living in the U.S. The primary focus should be on actions that:

- Grow family wealth
- Increase median household income
- Grow middle income jobs at a rate that is faster than the growth of lower income jobs (a reversal of net job growth trends since the 90s)
- Substantially reduce income inequality by significantly raising the floor
- Create sustainable, high value jobs that are irreducible and are integrated into regional economic systems, and
- Improve overall wellbeing.

This new focus requires fundamental changes that results in – I would argue returns to – a culture that regards “success” as an outcome of production and service and that necessarily ties the workforce and economic development systems to a common set of metrics.

There are five elements to a fair, blended system joining workforce and economic development.

1. People must be afforded every opportunity to develop their talent and achieve the highest value commensurate with their knowledge, skills and abilities. This will be accomplished through a combination of strategies that address economic demand, individual aspirations and a drive to innovate.

Learning will be ongoing: A map of each worker’s qualities over time will probably resemble a growing web of validated skills and formal credentials. As a result, the education and training system must be sufficiently robust and agile to accommodate a growing population of adult learners pursuing highly individualized interests. It will need to do a very good job of validating skills that are acquired on the job or at overseas institutions and create new stackable credentials that are aligned with changing workplace demands. Our policies and programs will need to accelerate the integration of immigrant workers into the workplace by respecting and recognizing their knowledge, skills, experiences, cultural diversity and determination as assets. Our policies and programs also will need to be linked to the life course of workers so that those who are older than 50 are afforded training solutions and career opportunities that build on their experience and knowledge.

It also is essential to look beyond known business needs and consider how people are able to use their talent creatively to invent, innovate and start

new businesses. Instead of simply trying to only match the skills of the workforce to known demand, a system focused on wealth creation and economic growth will make available the means for those with unique talent to express it in creative and, hopefully, economically productive ways. This will challenge policymakers to create appropriate new policies and resources that will require the re-invention of some legacy systems, especially in terms of how we appreciate the transference of skills and knowledge across industry sectors. This moves the idea of “human resources” beyond a set of production inputs and promotes it as a source of new opportunities.

2. The combined resources allocated to workforce and economic development need to reflect the economic stakes for the U.S. as a whole. It is doubtful that the current model of private investment and relatively little public support is sufficient to sustain and grow the U.S. economy in the face of growing state-subsidized global competition. As it stands now, once a person finishes high school, the shape and quality of the U.S. labor supply is determined largely by two groups: individuals making personal investments in their education and training and businesses that train their workers to meet specific needs.

It is time to match the level and quality of public investment with the importance of the challenge. A bold step is to extend basic public education to include the first two years of post-secondary education or the equivalent in occupation training and link this public support to meaningful graduation goals. The federal government and the states should also expand the size of direct public investment in training and education and support a discipline of lifelong learning through either subsidies or tax-supported savings plans that address the direct cost of education, the opportunity costs incurred when time is taken in order to return to training, and critical carrying costs, such as the cost of health insurance during the time that a person is away from work for training or further education. Federal and state governments should also encourage employers and unions to integrate and credential training in every aspect of the workplace through new methods of accreditation, tax policies, and matching subsidies.

Another bold step is to link workforce and economic development investments to household wealth creation and community wellbeing. Public assistance to business should be targeted to efforts that support and sustain middle-income job growth and real upward mobility of low-skill and low-wage workers. Low-wage, low-skill jobs should be regarded as nothing more than transitional and a foundation upon which workers can build careers that will sustain them and their families. At the same time, in order for people to move out of poverty, it is essential to reverse the trend of relatively low net job growth in the middle. Therefore, our policies must emphasize a

rapid expansion of opportunities in the middle and articulate clear pathways that link low-wage, low-skill workers to high-wage, high-skill jobs.

3. Employers, job seekers, workers, training and education providers, and labor market intermediaries must have the capacity and resources to monitor and manage risk and to make wise investments. Today's labor market information systems and econometric models were designed to inform policymakers about current and past conditions and to make broad projections of the future. While many important improvements continue to be made, it is essential to ask whether these resources are adequate in an environment that requires workers and employers to act quickly and creatively in the face of rapid economic changes.

A fair assessment will show that new forms of information and even new structures are needed to improve transparency and eliminate asymmetries in the collection and distribution of critical economic intelligence about local, regional, national and international events affecting local economic conditions. The first tendency is to organize some form of collective action encompassing metropolitan areas, a group of rural communities, or even several states. An alternative to new institutional structures is to establish local-to-global economic indicators that local decision-makers may use to make better strategic choices. For example, my Institute wants to explore whether, without creating new institutions, it is feasible to materially improve the quality, timeliness and distribution of information regarding investments in one part of the Midwest in order to capture new opportunities for businesses in other parts of the region.

4. The public workforce system needs to recognize that a core mission is to serve those who have nowhere else to go. Seemingly intractable inequities continue to create barriers for millions of workers. The highest priority should be given to those who are the hardest to employ, including those who face significant barriers as a result of economic disadvantage, gender, racial, and ethnic discrimination, physical, mental and cognitive disabilities, criminal records, illiteracy, or low basic skills. What distinguishes the public workforce system from other services is that results are measured in terms of skills, competencies and work outcomes – in short, human capabilities – and not always in employment. While training innovations and new experience-based approaches have held down costs and improved outcomes especially for low-skilled workers, programs that help those with the greatest needs are often the most expensive in terms of direct outlays, but not necessarily in terms of economic and social costs. Considering the alternative – returning people to prison, placing people in long-term care or providing shelter and food to those who cannot afford to do so – the cost of an inclusive workforce system is a bargain. The public policy challenge is to

recognize that important social and economic benefits are achieved by lifting the floor.

5. Finally, our policies and laws need to re-establish and strengthen the link between business performance and the value of a product or service. A very real danger of the current economic condition is that it will permanently undermine the standing of millions of Americans. The possible significant loss of human potential makes it simply unacceptable to rely on conventional policies to ride out the downturn. History shows that it will take years into an economic recovery before most who have suffered during the recession are able to get back to where they were before the downturn occurred. In fact, many Americans were never able to bounce back from the prior recession in 2001 since real median income remained below pre-2001 recession levels before it began to drop again in 2007.

Early on in the current recession, economic circumstances led me to recommend that the federal government consider a combination of public employment, subsidized private employment and publicly supported training wrapped with income stipends. The political calculation made by the President and Congress resulted in a far different set of policies aimed at stimulating the economy. These focused more on public investments that were designed to leverage private resources. Unfortunately, while this strategy prevented the economy from falling off of a precipice, it was too slow to develop tangible results and failed to reverse the downturn. This made it vulnerable to public impatience and to political demagoguery. The great temptation now is to repudiate these public policies and to dismantle the safety nets, public institutions, and progressive laws that were essential to U.S. economic growth since the end of World War II without real regard to the true consequences of these actions.

It therefore is important to change the discussion from one that focuses on what is wrong – or perceived to be wrong – to one that focuses on actions that will lead to sustainable job creation, rising median income, less income inequality and a better quality of life. These are values that are part of the American DNA. Unfortunately, many measures that we use as indicators of success, such as stock valuation and performance-based compensation, may be manipulated through what William Lazonick calls financialization strategies that may inflate shareholder value, but are not necessarily connected to the production and delivery of goods and services.³

It is essential to reward businesses and their leaders more for the added value of their products and services and less for the profits that are created

³ Lazonick, William. 2009. **Sustainable Prosperity in the New Economy?: Business Organization and High-Tech Employment in the United States**. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

by financial maneuvers. Our workforce investments should be used to grow businesses by improving the collective intelligence of the workforce rather than use publicly subsidized training to replace experienced qualified workers with less costly inexperienced workers. Our understanding of regional economies needs to become more nuanced so that value chains used in the production of goods and services are viewed in a more strategic light: one of the consequences of the domestic auto industry crisis is that the value chains were exposed as being vulnerable to collapse, putting in harms way the communities in which they were located. In short, the focus needs to be on service and product and no longer on cunning and “gaming” the system.

In her essay on American citizenship⁴, Judith Shklar said, “citizens in a democracy are entitled to respect” which is tied inextricably to the ability “to earn a living wage for all who need and demand it.” She wrote further: “In a polity of interest and rights-claiming individuals, only those who act in their own behalf and are recognized as competent in civil and political society can count as full citizens.” It follows that people feel diminished as members of society when they are out of work for long periods – or when they are never gainfully employed. Put in these terms, there are few issues more important to our democracy than whether a person is able to earn a living wage.

The next generation of workforce and economic development policies must be comprehensive and inclusive. These policies must address the challenges of today’s economy and respond effectively to tomorrow’s uncertainties. And, it must advance civil society by respecting individual needs, by responding to the needs of employers, by supporting economic growth and innovation, and by improving the quality of life of workers and their families.

⁴ Judith N. Shklar. 1991. **American Citizenship: The Quest for Inclusion**. Harvard University Press.