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FOSTERING OPPORTUNITY AND INNOVATION IN THE US LABOR MARKET

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Introduction

Thank you for the opportunity to address to you a few observations and remarks on the topic of "fostering opportunity and innovation in the US labor market." As a political scientist interested in the relationship of politics and markets on both a national and international level, it is clear to me that labor and economic development policies are strongly linked to governing structures as well as to political considerations. In addition, historically conditioned social arrangements play a large role in the shape and scope of the US labor market, as they do in all Western countries. It is difficult to characterize US labor policy, employment policy, economic development policy, and all of the related areas such as health, welfare, trade, immigration, and union regulation because there is no single policy locus within either federal or state government.

The US Economy and Employment

Let me begin, however, with a statement from President Bush which may be said to summarize something of a policy orientation: President Bush has stated, "the role of the government is to create conditions in which jobs are created, in which people can find work." Now whether or not you are an economist, this is a difficult and complex statement. If it constitutes a standard by which to measure the success of a presidential administration and its policies, then we may observe that the current record is not very encouraging. Although the latest employment figures put the US unemployment rate at 5.6%, it seems clear that job creation has lagged the economic recovery reflected in US stock markets.

President Bush promised in his tax bill that an additional 510,000 jobs would be created by the end of 2003. The Council of Economic Advisors projected that with no change in policy, the resilient US economy would generate a baseline of 4.1 million jobs by the end of 2004, even without the tax cut. Without going into the details which are available on the web site of the Economic Policy Institute's Job Watch (www.jobwatch.org), the President's economic plan called for a growth rate of 306,000 per month from July 2003 to December 2004. In 47 of the 50 states, the plan has so far fallen short. Again, according to the Economic Policy Institute, jobs increased by a total of 221,000 in the six months or so that the tax bill has been in effect.

At the same time, the Bureau of Labor Statistics reported that union membership dropped to 12.9% of all workers from 13.3% in 2002. Membership has been in decline since the Reagan years, as manufacturing jobs have declined to about 8% of the workforce. Public sector unions, which are less vulnerable to economic change, dipped slightly but remain at about 37% of the workforce.

Job Creation and Workforce Development Strategies and Policies

However one wishes to parse the figures, it is clear that in recent years the US has pursued more systematic, comprehensive, and aggressive job creation strategies. Whether this will result in improved outcomes remains to be seen. The movement over the last decade has been to remove systemic and structural barriers to job creation through well-planned employment strategies. Job creation is regarded as a component of economic development, and there is a strong assumption in the US that high employment and economic performance are linked. Employment, then, is an integral part of economic growth.

Of course, one cannot discuss any federal policy without accounting for the mitigating factor of federalism. While the EU has a 15 nation marketplace soon to expand, the US has a 50 state marketplace with a high degree of labor mobility. However, the federal government has also increased its influence over state labor markets through the use of federal grants and therefore has increased the impact of central regulatory power.

Still, there is tremendous flexibility in the US market for good and services. US firms enjoy far greater freedom than their EU counterparts to lay off workers, develop new products, negotiate with unions, outsource jobs overseas, or move plants abroad.
As in many other areas, the US government has developed programs to mitigate risk for firms, provide greater flexibility for employers, and encourage innovative solutions to economic growth.

For example, the Economic Development Administration, housed in the Department of Commerce, has as its role to stimulate industrial and commercial growth in economically disadvantaged areas of the US. EDA helps stimulate private investment and mitigate the effects of economic distress or dislocation. EDA depends on federal-local partnerships based at the community level through Comprehensive Economic Development Strategy Committees which themselves formulate the best development strategies for their locality. At the state level, meanwhile, policies focus on stimulating entrepreneurship and implementing economic development programs such as attracting out-of-state investment and new businesses.

The US Department of Labor oversees the Workforce Investment Act of 1998 which provides the framework for national workforce preparation and employment systems to meet the needs of job seekers and businesses. Federally-funded job training programs were consolidated under the WIA (which replaced the federal Job Training Partnership Act of 1982) into a program that provides employment and training services for adults, dislocated workers, and youth that is locally focused and flexible. The WIA requires that core services now be available to all adults with no eligibility requirements. Local management and one-stop career centers integrate an array of employment and training programs and provide counseling, skills assessment, job search assistance, training, and other services.

WIA also requires each state to establish a workforce investment board as well as local investment boards. The state board helps the governor develop a five-year strategic plan to ensure coordination of all workforce development activities. This plan must be submitted to and approved by the US Secretary of Labor as being consistent with the WIA. Most states have now established a Workforce Investment Department or Agency to administer the program.

Overall, US policy is not constrained by labor market rigidities. The normative content of work arrangements are not highly regulated at all. The nature of employment contracts are unregulated, and employment protection is not handled from a regulatory standpoint but from a collective agreement in the case of unionized workplaces. Employees are generally held to be “at-will” and can be fired accordingly. One benefit of this is that US firms are able to introduce innovations in information technology, for example, or change methods of work quite quickly and easily, without resorting to negotiations with unions or works councils. Under American law, employer-initiated plans or committees on quality or productivity, brainstorming sessions, and other methods to encourage contact among employees are not restricted. There are of course under union collective bargaining arrangements other rules and regulations, but again, unions represent a minority of American workers.

Thus, job creation may not necessarily favor job protection. The American goal is to accelerate the match between supply and demand and increase the ability of workers to find adequate work based on adaptive and transferable skills. The US approach, not unlike the EU approach, is to coordinate actions taken at the central, state, regional, and local levels. As one observer has pointed out “the comprehensiveness of the US approach to workforce investment [is] premised on a centrally developed but locally implemented US-wide customer-focused system to job training and job placement . . . . ” (Véronique Marleau, “Job Creation Strategy, Employment Policy, and the Role of Labor Law” in Marco Biagi, *Job Creation and Labor Law*, Kluwer Law International 2000, p. 43).

The Impact of Globalization

I want to address for a moment the notion of social capital and what it means for the way work in the future will be organized. As Francis Fukuyama points out, social capital is critical to the management of highly skilled workers, and the professional education of these workers is a major source of social capital in an advanced information age society, providing the basis for a decentralized, flat organization. The move from Taylorism with its hierarchical organizational structure to a flat or networked structure means bureaucratic rules disappear as social norms displace them. Authority becomes internalized and permits self-organization and self-management.

Social networks, common to technologically based information societies, form the basis of the new organization of work. In this system, a high degree of trust is necessary, and employment is insecure and lifetime employment and loyalty to a given company unheard of. The former “employee” becomes a company of one, “Me, Incorporated.” As a knowledge worker in a fluid economy, plugged into a variety of social networks, I have the ability to adapt to a changing environment and am thus more empowered to manage my economic relationships. Of course, hierarchies are inevitable, and in a society like the

US, economic hierarchies are replaced by status hierarchies, which explains much of the level of social angst experienced by Americans in a supposedly "classless" society.

My abilities as a knowledge worker and independent economic unit become particularly important in the era of globalization, with its unpredictable impact on the economy. It is now generally accepted that globalization is transforming the workplace, employment relations, and our way of life. This is not a smooth transition by any means. In the US, we have largely accepted our exposure to the forces of globalization and willingly, for the most part, welcomed the increased economic interdependency created by globalization.

It seems to me that some of the fundamental questions about the impact of globalization have yet to be addressed: what are the implications for employment relations, the effects of trade regimes and economic liberalization on employment, wages, skills, and industrial relations? We are in a learning phase about all of these things. Technological progress is certainly accelerating the effects of globalization, to the degree that IBM was able to announce recently an initiative to hire thousands of computer programmers in India. Conversely, it is interesting to note that in Silicon Valley it is reported that over 1,000 companies have been started by immigrants from India.

India is a country that in 1991 suffered from centralized economic planning, a double digit rate of inflation, decelerated industrial production, lack of fiscal discipline, a lack of foreign exchange reserves. The World Bank and the IMF agreed to bail out India on the condition that free market reforms were introduced. Through government led economic liberalization and privatization, it may now be argued that India is poised to be an influential player in the new technologically-led transformation of the global economy.

Globalization has intensified Foreign Direct Investment (FDI), and some now argue that FDI is a better measure than trade as a measure of international economic integration. FDI flows to Latin America and Africa have increased throughout the 1990s, and is now flowing to some countries in the Middle East. In 1998, FDI flow into the Asia-Pacific region was US$85 billion, and into China US$45.5 billion. These figures have only increased over the past five years. FDI flow to China is now US$65 billion, and it ranks second only to the US (US$153 billion) in FDI (Belgium $55b, France $47b, UK $46b follow China). Offshoring, or oursourcing of key business processes to the developing world is increasing at a rapid rate. Offshoring in India according to Bain & Co is estimated to increase by 57% by 2006, and the market in Russia by 45%.

I submit that the emerging paradigm of work we are witnessing in the US, and to some degree the UK and Canada, requires us to rethink radically our approach to labor markets and economic development. While official US efforts to create jobs and provide economic development assistance to some degree continue traditional approaches, we find the marketplace changing faster than policy can adapt. Rather than looking to governments, then, to define and lead workforce restructuring and innovation, we should consider Schumpeter's notion of "creative destruction" and take into account the pervasively disruptive force represented by capitalist-based globalization.

Emerging Domestic Markets and Employment

The converse of FDI is Emerging Domestic Markets (EDM). Globalization has clear domestic impacts, but what about small and medium sized enterprises and their growth, as opposed to simply looking at job creation policies and mechanisms?

In recent years, institutional investors have become increasingly interested in EDMs. Between 1990 and 2000, the private capital invested in EDM rose from $550 million to $3.4 billion, and the number of investment funds rose from five sources of capital in 1990 (with federal government providing 70 percent of invested funds) to 9 in 2000, with only 19 percent of the money coming from the govnerment. An example of a risk management structure that applies the logic of structured finance to the emerging domestic marketplace is the state level Capital Access Program (CAP), now operational in 22 states and 2 cities. CAPs offers a mechanism for lending to small businesses that would otherwise be shut out of the market. Any federal or state chartered bank, savings association, or credit union is eligible to participate in CAP.

To create a link between CAP and private capital markets, California, where I live, passed legislation in 1999 permitting the securitization and sale of CAP loans as asset-backed bonds. The US Congress passed legislation in 2002 authorizing $200 million to be appropriated for a national CAP reserve. EDM firms therefore have already been able to float high-yield securities in the entertainment, communications, and retail sectors. This kind of innovative structured finance makes it possible for lenders to diversify their portfolios, minimizes risk, and allows good market returns.

Old models of capitalism were built on the model of control of tangible capital. A relatively small number of capitalists controlled society's physical assets and labor force to make things. Mass production by hierarchical firms using homogeneous labor and capital inputs was normal. In modern models, economies run largely on ideas and the ability to finance them.

Capital spending that used to be concentrated in long-lived tangible assets now sustains rapid product cycles in knowledge-based industries. Thus, innovative financing tools, backed by government risk management programs, contribute substantially to job creation, although this is not strictly a "job creation" program. Economic growth and diversification, then, underlie the US model of job creation.

Conclusion

I have attempted to characterize some of the public and private initiatives that promote job creation in the US. Rather than a "top down" strategy driven primarily by government programs, the coupling of economic growth with job growth is an "inside-out" approach, with federal and state policies designed to create a favorable climate for investment while cushioning and redeploying displaced workers.

The US approach of flexibility, private initiative, and entrepreneurial drive could hold some lessons for the EU as its seeks policies to overcome more than 25 years of structural unemployment. The risks of this model are high, and not everyone benefits equally, but the US approach is based on equal access to opportunity versus equal outcomes, and shifts the burden from the state to the individual in pursuing those outcomes. In such a system, the "democratization of capital markets" promoted by organizations such as the Milken Institute is a critical and urgent project.