

***RIGHTING THE UPSIDE-DOWN ECONOMY:
CREATING A SUSTAINABLE RECOVERY***

Transcript

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Eileen Appelbaum:

Thank you, Scott. I'm very happy to be here, and happy to see all of you this morning. My topic is job quality in the upside down economy.

I want to talk about the kinds of jobs that the U.S. economy has been creating, and what we can expect for the future. We're going to hear a lot more in a few minutes from Jamie about the macroeconomic situation. I think that most of you are well aware that we've had very expansionary macroeconomic policy. The interest rate – the Federal Funds rate – went up a little bit yesterday. But interest rates have been at historic lows for three years. In addition, the federal budget has gone from a position of surplus to a position of deficit.

Despite all of this, we have not created enough jobs to keep up with the growth in the working age population. Indeed, the U.S. has had a decline in the share of Americans of working age who are employed. This is sometimes attributed in the popular press to women and mothers who have decided that they want to stay home with their kids. But as you can see if you look at the top line of the first chart, it's true of men also. So it's a labor market issue, unless we also want to think that fathers have decided that they should be staying home full time with their children. So we definitely have a jobs problem here.

The next several slides that I am going to show you will run through what is happening to job quality. We'll look first at the establishment data, and see where employers say the jobs have actually been created. Then we'll take a look at the household data. When we get to that slide, you will see that, in the past year, part-time employment increased by more than half of the number of all jobs that were created. You'll also see that real wages are declining. And finally, I will show you some slides that illustrate the really important point I want to make – namely that we're dealing with a long term trend. The creation of poor quality jobs is not just something that is due to the current business cycle, and if we don't address this development through economic policy, we're going to see a continuing shrinking of the middle class.

This slide shows private sector job growth, and what I've done here is select out the service industries that are producing lots of jobs. You can see that they are retail trade, temporary services, janitorial, home health aides and nursing home facilities, child day care, and restaurants and food service. These industries account for some 56 percent of the jobs that have been created since last May. So we're definitely creating jobs again, as you can see: 1.35 million jobs have been created in the last twelve months, most of them more recently than that. But more than half of them are in these low wage service industries employing lots of women. Not surprisingly, if we look at total employment from the household data, we see in the next slide that many, many of the jobs that have been created are part-time jobs. We know that in retail, in foodservice, in janitorial, nursing aides and so on, these are frequently part-time jobs. So the economy is now creating jobs again, but these are lots of low-wage jobs, and lots of part-time jobs.

If we take a look in the next slide at what has happened to real average hourly earnings, and Scott has already talked about this, you can see that the tremendous spurt in productivity growth since the mid-90s was translated into an increase in wages, although wages never, never kept up with the increase in productivity. Workers never got their share of the growing economic pie. But we do see that real wages were increasing in the 1990s. Then, as we move into the 2000s, we see the rate of increase slowing. And in the last year, while the jobs were finally being created, we see the real wage going down. And I think it's not a mystery why this has happened – if you create a lot of jobs in low-wage industries, you will see the real wage, on average, going down.

I think the next slide is really telling. I think this graph makes it really clear what has happened in the last few years. On the right hand side you can see the tremendous increase in jobs that pay very, very low wages. If you look at the lower middle class and the middle class jobs, you can see that those were shrinking. And on the left hand side of the slide, you can see the increase in higher paying jobs. So it's not that the U.S. economy doesn't create any good jobs, we certainly do create good jobs. But the middle-class jobs that have supported a middle-class standard of living are shrinking, while the jobs that pay rotten wages have been increasing.

If we look in the next slide at the top ten occupations in terms of employment growth between 2002 and 2012 – the occupations that will create the largest numbers of jobs, then we see that this expansion of low wage jobs is a long-term structural problem. We're not dealing here with something that will go away if we can only come out of the business cycle. We're dealing here with something that needs to be addressed through public policy. It's a long term structural problem.

Looking out to 2012, you can see that for the ten occupations that will create the most employment, in seven of them the wages are low, and in five of those jobs the wages are very low. That is to say, they are below the poverty line basically for a family of four. If I had shown you the top twenty (they wouldn't fit on this slide) you would see that the story is even worse. If you look at the top twenty occupations, 15 of the top 20 occupations in terms of the number of jobs they're going to create pay low wages, nine of these pay very low wages, only two require a bachelor's degree or higher, and 14 of them require only short-term, on-the-job training. And these 20 occupations account for 35 percent of the job growth between now and 2012. So we need to do something about this.

Here you can see the same thing graphically. What are the occupations in which we have the job growth? You can see the low wage jobs growing rapidly and the middle income jobs growing much more slowly. So this is really the nature of the problem.

Now I want to say a few words about why this is happening. We are creating jobs; it's not that the economy is not creating jobs. Our problem is that the jobs employers are creating don't pay middle-class wages, and the question is, why not? If you look at the jobs the economy is creating, you would see that these are jobs that are not footloose. These are jobs that are not going to be exported. You cannot blame competition with low wage countries for the low wages that we pay nursing assistants, or that we pay people that work in childcare centers and take care of our kids, or take care of our elderly parents, or our sick and frail relatives. The real problem is

that there is no countervailing force to the blind and mistaken pursuit of profit that we so often see.

For one thing, unions lack membership density. In your packet you'll see an advertisement for a book that I co-edited called *Low Wage America: How Employers Are Reshaping Opportunity in the Workplace*, which is a study of a large number of industries. We looked at companies and we asked the question, "How come they're creating so many low-wage jobs? And what makes a difference?"

What we found is that housekeeping jobs, jobs for certified nursing assistants, these jobs pay decent wages – they pay middle-class wages – in cities where union density in those occupations is high. So, certified nursing assistants in New York City, for example, get much more training, they get much more training than nursing assistants ordinarily receive. Those nursing assistants taking care of your sick parents generally receive two weeks of training. In New York City, they receive much more extensive training. As a result, they can take over some of the lower level, more routine functions that nurses otherwise would have to carry out, and it becomes cost effective to pay the more skilled nursing assistants higher wages. And that's exactly what we see in New York City.

In San Francisco and in Las Vegas, where union density is high among hotel workers, we see that the housekeeping staff starts at about \$14 an hour. So it is possible for these jobs to be middle-class jobs. But of course union density is rather low in this country, and we can't rely on that.

The second problem is that government has abdicated responsibility for setting minimum acceptable standards in the labor market.

You know, I was in Germany when the Italians imposed speed limits on the Autostrada, These are the Italian highways, and the Italian government a few years ago imposed speed limits there. And the Germans were outraged, absolutely outraged, because of course the Autobahn has no speed limits. It used to be possible to go from Hamburg to Milan as fast as your car could take you. And that's why everybody in Germany has those BMWs and Mercedes, so they can go racing down those highways on their vacations from Hamburg to Milan as fast as they want. But the result of the new traffic regulation is that deaths from traffic accidents in Italy have been greatly reduced. Meanwhile, Germany has the highest accident fatality rate of any industrialized country. Sometimes, you know, speed limits – standards – make a real difference. And I think that the same is true here in the U.S. labor market. Standards would make a difference.

What we find in *Low Wage America* is that low wage policies and the low wage model are not necessarily good for companies. But if your company is competing in a competitive market, it's really difficult for you as an employer to resist the downward pressure on your workers' wages and benefits if your competitors are paying low wages, or if your competitors are not providing health care. We have the example of southern California, where there was a major supermarket strike. It was brought about because supermarkets in southern California do pay middle-class wages, they do pay health benefits for their workers, and now Wal-Mart was coming into their markets. And, as we all know, Wal-Mart does not pay middle-class wages and very few Wal-

Mart workers have access to health benefits through the company. The supermarkets in southern California felt that if they were going to remain competitive with Wal-Mart in their market, they would have to emulate Wal-Mart's low wage policies.

But in fact, we have a lot of research on management practices – I am a professor in the School of Management and Labor Relations at Rutgers University – that tells us that investing in your workers, raising their capacity to do their jobs increases a company's productivity. It increases job satisfaction, it increases customer satisfaction, it allows companies to retain their customers, and it allows them to be profitable.

The next slide shows a side by side comparison between Costco, which prides itself on paying decent wages, prides itself on giving employees health benefits, prides itself on its pension plan, which believes that having satisfied employees will lead to customer retention, and which in fact on every measure important to shareholders is doing better than Sam's Club, which is owned by Wal-Mart.

Let me conclude by talking about what government can do. Companies often find themselves caught between a rock and a hard place. They would like to do better for their workers, but they are afraid that they will be undermined in the short run by less scrupulous competitors who pay poverty-level wages and don't provide benefits. So we need government to set standards in the labor market, just like we need government to set speed limits on our highways.

We need government to help companies be good employers by reestablishing standards in the labor market. Three really important things that government could do would be first, to raise the minimum wage and peg it to half the average wage. That's where it was when it was first established, that's where it was in the 1960s when the U.S. had a growing middle class, and that's where it is in most countries that have a minimum wage. The minimum wage should be pegged to one-half the average wage. It shouldn't take an act of Congress for a low-wage worker to get a raise.

The second thing we need government to do is to guarantee workers a minimum number of paid sick days. I think it's pretty obvious. Most kids have a mom who works. And working parents need to be able to take off for their own illnesses and for their children's illnesses a couple of days a year. Companies can afford it. And the third thing we need in this country is California-style paid family medical leave. That is, workers need an insurance system like the unemployment insurance system, a parallel system, to provide for paid family medical leave.

In addition, the U.S. needs to bring healthcare costs under control. Companies are really struggling with health care costs. And they are shifting a larger and larger share of the burden to employees.

We need to think about innovative training programs for incumbent workers. We have very little in the way of training for workers without a college degree who are already employed, and we need to do more about that.

Finally, the most important insight I think to come out of Low Wage America is that where companies in a region and in an industry have organized themselves into an employer network, they are able as a result to access resources that they cannot access individually. We have three examples in the book of industries, occupations and regions where this has happened. And those employer networks provide employers with access to customized training and to other training resources. It allows them to benchmark technology and management practices. It allows them to maintain quality standards. And it allows them to, as a group, employ people who are able to help them seek out new market niches, new export markets for their products. We have found that this enables companies to both be better employers in terms of how they treat their workforce, and more successful in terms of their own productivity, profitability, and long-term survival.

Reestablishing standards in the labor market is the key to restoring the growth of the middle class.

Thank you very much.