Introduction

Work in the U.S. economy is changing in profound ways, creating new opportunities and new inequalities. There are winners and losers, new forms of competition, new pressures, and new calls for action. Yet in the increasingly fractious and partisan atmosphere that has engulfed the nation in recent years, the hope of finding some common understanding about what is happening, much less reaching any sort of consensus on actions (or inaction) that the nation might consider, seems increasingly forlorn. Ignoring the new economic realities could lead to a weaker economy in the future, an increasingly divided society, more uneven opportunities for our children, and potentially even the emergence of demagogues who will exploit the politics of blame and polarization.

The Domestic Strategy Group and Confusion About the Economy

The Aspen Institute's Domestic Strategy Group (DSG) was formed to find common ground. An eminent group of leaders from business, government, labor, local communities, the press, and academia have come together in a multiyear effort to examine the future of work. The group seeks to answer several critical questions: What is happening to work and workers, and what does the future hold? What challenges and opportunities do the economic changes create for firms, workers, families, and communities? And what can we do to meet these challenges?

The group began this effort in the summer of 1997. Experts on technology, trade, workers, the economy, and many other domains came before the group. Their reports, summarized by David Bollier (1998), were fascinating and frustrating. Some argued that the nation was on the verge of a great renaissance, led by technology, that would sweep the nation forward and ultimately produce a vastly more prosperous nation. They pointed to firms engaged in bold and exciting innovations to meet the new challenges. Yet others complained that the nation was mired in a period of limited growth with very modest increases in productivity. Still others pointed to dramatic changes in the distribution of wages and bemoaned the increasing inequality among our workers. All of the presenters had facts and figures aplenty to support their sometimes hyperbolic claims.

Predictably, the group was concerned. How could these thoughtful people reach such different conclusions? Perhaps the problem lay in the data—surely it could not be the case that national income per capita had risen rapidly, while the median earnings of the typical male worker had been flat or falling. Perhaps the confusion involved the short-term struggles of a few during a transition to a new economy. Or in the words of Alan Blinder speaking to the group in August 1997 in Aspen, perhaps the "Goldilocks economy" was really the "Little Girl with the Little Curl: When she was good, she was very, very good, but when she was bad, she was *horrid.*"

The policy conclusions were equally frustrating. Should we do nothing and let the miracle of the new economy unfold? Should we look for ways to intervene and sharply change the structure of work and pay? Or should the government seek to ameliorate the insecurities caused by the changing economic climate and to improve the productivity of workers without intervening in markets per se?

For its meeting the next summer, the group commissioned a series of papers designed to learn about the facts and the directions that the nation should consider for policy. Those papers constitute the chapters in this volume. Each chapter focuses on one of three main issues:

1. How has the changing economy affected the pay of workers and the incomes of families? Who has gained and who has lost as a result of the changing patterns of work and pay in the past quarter century? David Ellwood focuses on these questions in chapter 1.
2. How has the nature of work and the relationship between employees and employers changed in recent years? How much promise is there in so called "high-performance workplace" practices and employee participation in ownership and profits? Douglas Kruse and Joseph Blasi focus on these issues in chapter 2.
3. What should government do about these changes? William Niskanen and Rebecca Blank—former members of the President's Council of Economic Advisers under Ronald Reagan and Bill Clinton, respectively—offer different perspectives on policy in chapters 3 and 4.

In effect, then, this volume views the changing economic landscape and potential policy responses through several different lenses: the worker, the relationship between workers and employers, and government policy.

These chapters paint a surprisingly consistent picture both about what is happening and what the nation ought to consider. And they had a powerful effect on the group when they were presented. By the end of the group's meeting in the summer of 1998, DSG members largely concluded that the differences in interpretation were primarily the result not of numbers problems, but rather of the selective reporting or interpretation of facts. Dramatic changes are indeed occurring, and these changes have created both winners and losers, with profound implications for families and children. Industry is changing, but not nearly as fast as some expected or as some believed necessary. And the group charted a direction in the search for ways to meet the challenges and opportunities that the changing economic picture offered. It is our hope that this volume can provide the sort of clarity needed for the nation to understand the challenges we face. We summarize these insights briefly here.

How Has the Changing Economy Affected Workers and Families?

Chapter 1 directly confronts one of the apparent contradictions in economic data: how could per capita national income have risen steadily, while the wages of most male workers stagnated? Where did the money go? Ellwood finds that essentially none of the growth in the economy between 1973 and 1996 went to middle- and working-class male workers—workers with wages in the bottom two-thirds of the distribution. Nearly half of the new income in the economy was paid to women. Indeed one of the most profound changes in the current economy is the increase in work by women and the rise in their wages relative to those of men. This does not mean that women earn as much as men—they do not—only that they have been catching up. Too often discussions of the economy ignore the role of greater work and higher pay for women. Another quarter of wages went to upper-income male workers. And the remainder went to profits. However, profits as a *share* of total national income did not change a great deal, rather capital got the same portion of a larger pie.

Chapter 1 illustrates that the economic fortunes of the nation seem to be shared less uniformly than in previous eras. The 1960s were a period of shared prosperity in which a rising tide really did seem to lift all boats. The 1970s were a time of shared stagnation. And the 1980s and 1990s were a period of divergence, with large winners and losers. Even among women, those at the top did far better during the 1980s and 1990s than those at the middle and bottom.

One might hope that declines for men were offset by increases in earnings for women, and thus families and children were sharing the prosperity even if individuals were not. Unfortunately, the divergence in the fortunes of children was even greater than the divergence in the earnings of individuals. The chapter points to two reasons. First, higher-income women (whose earnings grew the most among women) tend to marry higher-income men (who were the only group of men to experience large earnings gains), thus exacerbating the trends for either group alone. Second, the sharp increase in the number of children in lone-parent families pushed down the economic fortunes of many children who had income from one or fewer earners. Thus children in the top third are vastly better off economically now than they were two decades ago. Children in the bottom are far worse off.

How Has the Relationship Between Workers and Employers Changed and What Might Be Done to Improve It?

In chapter 2 Douglas Kruse and Joseph Blasi suggest that by many measures the connection between workers and employers has weakened, although perhaps not as dramatically as some suggest. The authors report that the risk of displacement and layoff grew in the 1990s, particularly for white-collar workers. Displacement always rises in recessions and falls when the economy is strong. Yet displacement in 1996, which was a good year by almost any measure, was nearly as high as it was during the peak of the 1982 recession. They find an accompanying decline in the fraction of workers with long-term employment with a single firm. And there appears to be a rise in the number of contingent workers. Still the chapter also provides an antidote to the often-exaggerated claims that stable employment connections barely exist anymore, for there remains a considerable number of long-tenure workers, and contingent work has declined in the recent strong economy. Nonetheless, the number has fallen considerably for men.

Kruse and Blasi then examine the impact and prevalence of a variety of what might be labeled “high-performance workplace strategies”—from quality circles to training to self-managed work teams. There is evidence that such practices can improve productivity, but typically only if used in combination. And although they find that a large fraction of firms practice some form of high-performance strategy, few (less than 10 percent) embrace the combination of actions that seems to offer the greatest potential for productivity gains.

Next the authors look at the question of whether so-called shared-capitalism strategies hold much promise for increasing productivity and spreading the gains from success. They report that roughly one worker in five is involved in some sort of profit-sharing arrangement and that an equivalent fraction of workers own their employer's stock. Although such plans do not automatically improve productivity, they often do. And employee stock ownership plans (ESOPs) appear to increase productivity by perhaps 5 percent and to increase job security somewhat as well.

The authors end with a call for a variety of mechanisms to enhance employer knowledge of high-performance, employee-friendly practices and for continued willingness to use tax incentives to encourage ESOPs and similar methods of employee ownership.

What Should Government Do?

The last two chapters were commissioned as a pair. William Niskanen, a member of Ronald Reagan's Council of Economic Advisers, and Rebecca Blank, a council member under Bill Clinton, were asked to consider whether we should be troubled by the trends in inequality and what, if anything, should be done about them. Their chapters differ significantly in tone and focus, yet, in some respects, what is more striking are the widespread areas of agreement between the two authors.

In chapter 3 Niskanen begins by reviewing what may be causing the changes in work and pay. He emphasizes that we seem to be at the dawn of a new industrial revolution. But he highlights the puzzle that productivity gains have been slow to materialize. Moreover, he discusses the possibility that with technological change and market responses, over time productivity will rise and inequality will decline. He also notes the contribution of trade, immigration, skills, and institutions. He then turns to the question of what should be done.

Niskanen then tackles the question of whether we should care. He notes that a reasonable case can be made that we should not. Clearly he is not bothered much by inequality per se. Still, he is troubled that the least advantaged are becoming worse off. Thus he believes that policy efforts should be directed toward the least skilled.

Niskanen is as clear about what he opposes as about what he favors. He eschews "European model" solutions that he characterizes as centralized wage setting, government restrictions on firing, and generous unemployment benefits of extended duration. He also believes that the nation should oppose restrictive trade or immigration policies, increases in the minimum wage, employer mandates for family leave or medical coverage, and changes in labor law designed to strengthen unions. His orientation is toward removing government barriers that restrict opportunity for the least skilled.

He favors a strong focus on kindergarten through twelfth-grade education with a particular focus on vouchers. His reading of the early evidence is that where school vouchers have been tried, performance has improved. He would improve the process of school-to-work transition but is somewhat skeptical about the various alternatives. Finally, he emphasizes the benefits of the earned income tax credit (EITC), which offers low-income working families a refundable tax credit of up to $3,500, which he views as an essential part of protecting low-income families. And although he opposes any major changes in labor law that would strengthen unions, he believes that something must be done to reverse recent rulings that create obstacles to attempts by companies to form quality circles, one of the high-performance workplace features that Kruse and Blasi discuss.

In chapter 4 Blank spends considerable time examining why we should care. Some of her points parallel implicit themes in Niskanen's chapter. She cites wage declines as a signal of productivity declines, which she too finds worrisome. And she worries about declines in well-being of the least skilled and their families. But Blank goes further to worry about devaluing employment and lessening civic cohesion. Although the two authors start from very different perspectives, they agree that the primary emphasis ought to be on the problems of the least skilled more than on inequality per se.

When it comes to policy, Blank and Niskanen have some areas in common. Blank also wants to focus on kindergarten through twelfth-grade education. She would look beyond vouchers and consider a variety of other proposals, but she thinks it sensible to experiment with vouchers as one tool for improving schooling. She too thinks that school-to-work programs should be considered. Blank goes further in calling for enhanced public and private training, although she recognizes its limits. And she points to the potentially important issue of creating better job ladders for less-skilled workers. Just like Niskanen, Blank emphasizes the importance of the EITC, opposes trade protectionism, and thinks that serious union expansion in its current form is unlikely. Thus in major ways these two authors find common ground.

However, the two part company on the question of minimum wages and employment subsidies for health care or wages. Blank is comfortable with limited demand-side strategies such as highly targeted, time-limited public service employment. And she speculates about what sorts of new institutional structures involving worker organization and management might improve the current situation.

The Bigger Picture and Future Directions

It is interesting to reflect on what all these chapters collectively imply about work, inequality, and policy. After talking at length about the information contained in these chapters as well as listening to other presentations, the members of the DSG emerged with a strong conviction that a variety of pressures, from expanded technology to trade to a far more demanding group of investors, have created a far more competitive marketplace. This has placed dramatically greater demands on both workers and employers. The old rules no longer apply—employees can no longer count on secure jobs so long as they work hard and are loyal to the company. And employers may have to work especially hard to keep their most valuable employees. Most workers seem more likely to move between several—even many—jobs over their careers. That greater job mobility imposes both costs in terms of lost income and benefits as well as opportunities for advancement. The group most disadvantaged by these changes are the least-skilled male workers, whose jobs have vanished and been replaced by lower-paying ones, whose internal job ladders have been lost, and for whom job mobility may not lead to real growth in incomes.

At least some members of the group felt that American industry was at something of a crossroads. Business-as-usual no longer works. Firms face a choice: they can take the high road by adopting high-performance workplace strategies that create a loyal and flexible workplace. Or they can take the low road by treating employees like any other item in the inventory, minimizing costs in every way, and using just-in-time hiring strategies where workers are hired only as needed and let go quickly when the market or product mix changes. There are clear examples of both strategies in the economy. Many in the group worried that the high road was most likely to be taken by high-technology and high-wage firms with a highly skilled workforce, while more and more less-skilled workers would be found in low-road jobs without real job ladders or security. There was considerable discussion, but also real discomfort, with the idea that the government might want to reward high-road employers and penalize low-road ones.

Everyone seemed troubled by the fortunes of the least skilled. And not unlike Blank and Niskanen, it was the struggles of this group, more than inequality per se, that people found troubling. Still there was considerable concern that job changing and the diminished security of middle-class workers were worrisome as well.

The group did agree wholeheartedly with many of the common policy recommendations of Blank and Niskanen. Everyone seemed convinced that the EITC was critically important and should be protected from budget cuts. Everyone was equally convinced that elementary and secondary education need to be improved and that we should be willing to experiment far more widely, although vouchers were controversial with some.

The most interesting feature of the discussion was the enthusiasm for investigating new directions. First, the group felt it essential for the nation to generate real mobility and usable skills. Beyond a focus on education and training, the group was excited by an idea advanced by Katherine Newman that the nation might be able to find ways to create more effective job ladders between firms. Then lower-paid employees who perform well in one short-term job could use that solid work performance to move into a better and more secure job in the future. Indeed, this issue was the focus of a recent two-day meeting of the group in New York.

Second, the group wanted to explore ways to make jobs work for everyone. That requires thinking hard as people move from job to job when benefits have traditionally been tied to long-term employment. We need to maintain a highly mobile labor market without creating unreasonably high levels of insecurity for workers. Thus issues like portability of benefits and even some decoupling of benefits from employment merit examination. It is important to think about the binds of work and family time that are created by the fact that all the adults in a household often work. And it is important to have the government continue to offer and even expand supports for low-income working families—from health coverage to child care to other supports, including the EITC.

The chapters in this volume are the beginning of still more work to come. We hope and expect that they narrow the range of disagreement and uncertainty and point toward possible directions for the future.