3/4/96

SOCIAL AND POLITICAL IMPLICATIONS OF MAJOR ECONOMIC TRENDS

Project Summary

Ray Marshall

Introduction

This project's primary hypothesis is that many of the nation's most serious social problems either are caused or exacerbated by some fundamental economic trends. The most important of these trends are technology, especially information technology; some very important demographic and labor market trends; and the intensification of competition facilitated by technology (information and transportation), which also has caused markets to be both more competitive and more international in scope. These changes have eroded the effectiveness of the policies, institutions, and economic arrangements that caused the United States to have the longest period of equitably-shared prosperity in history from the late 1930s until the early 1970s. During this period, Americans with limited levels of formal education who were willing to work hard could earn middle-class incomes and acquire the financial means to provide more education and the promise of a better future for their children. In addition, during the 1950s and 1960s families could be supported by only one wage earner and most mothers could stay home with their children if they wished.

While improvements in the conditions of the poorest Americans, especially Blacks, Native Americans and some Hispanics, have never been easy, more progress was made during this long period of prosperity than before or since. Indeed, within the Keynesian paradigm, social safety nets were considered to be good for the economy because they improved aggregate demand, which was needed to keep the mass production system operating at full employment. Public support for anti-poverty and civil rights measures also varies with economic conditions.

The global economic problems exacerbated by the 1970s' energy price shocks have reversed the economic fortunes of most Americans, therefore reducing public support for social and civil rights programs. The economic problems caused by these changes have dampened the expectation many Americans had that succeeding generations would be better off. Some of the most serious economic problems since the early 1970s include stagnant productivity growth, a secular rise in joblessness, less stable employment, stagnant real wages for all but the top 25 percent of wage earners, declining real wages for those with high school education or less, growing inequalities in wealth and income, longer hours as workers try to sustain family incomes as real wages fall, and rising poverty. Although highly educated people are better off *relatively*, men have experienced falling real wages at every educational level. In addition, many men appear to be suffering identity crises because they are no longer able to be the bread-winning heads of households that their fathers were. Women might have better lives than their mothers had, but are stressed by their dual roles as parents, with inadequate time for their children, and as workers with unequal opportunities. Major uncertainties and anxieties are caused by economic insecurity in this new environment, exacerbated by the ineffectiveness of the economic policies that were perceived to be so successful during the 1950s and '60s.

While the relationships need to be established by a review of the evidence, it is natural to connect America's growing social problems with these economic changes. The most important of these problems are: (1) greater risks for children caused by family instability, teenage and out-of-wedlock childbearing, and the fact that even the most affluent parents have less time for their children; (2) drugs, crime and violence, which destroy many lives and inflict considerable damage on society; (3) growing social segregation along class, as well as racial and ethnic, lines; and (4) obsolescence of learning systems in an economy where the maintenance of middle-class incomes requires all workers to have the kind of skills formerly provided to a few high school and college graduates. These problems are exacerbated by rising inequalities in wealth and income; the isolation of the urban and rural poor; the declining power of mediating institutions–

like unions, community and civil rights organizations; and the influx of immigrants, who seem to come in at the extremes of the income distribution, thus widening income gaps.

These social and economic problems intensify racial, class and ethnic conflicts, and cause more affluent Americans to perpetuate myths about the causes of problems and to be less willing to support education, health and other measures to promote the general welfare by improving the conditions of lower-income people. The frustrations and uncertainties in a complex, rapidly-changing world often trigger scapegoating of highly visible groups like minorities, immigrants, and government officials, who often are targets of angry, irrational, or extremist responses. These trends and developments have ominous implications for America's polity, society, and economy.

This project seeks to provide the factual and analytical bases for policies that might ameliorate the problems caused by these trends and developments.

The project's basic approach is to promote a careful, factual and nonpartisan analysis of these subjects. Two guiding rules will be (1) to attempt to attain agreement on the facts and (2) avoid casting blame. There is enough blame to go around--our focus should be not blame, but to discover what we should do to slow down or reverse negative trends, solve problems, and to take advantage of opportunities.

Specifically, this project examines the political and social implications of some major economic trends. The main objective is to synthesize some of the best scholarship available, and to stimulate widespread discussion of policies to ameliorate problems and take advantage of opportunities presented by these economic, political, and social trends and development. An effort will be made to examine all major points of view on each subject.

While the project's principal concern is with the implications of basic economic trends, these matters are interactive, because social, political, and cultural factors strongly influence economic performance and outcomes. There is, for example, some evidence that job growth is influenced at least as much by social and demographic factors as by macroeconomic policies.

Similarly, social conditions like crime, violence, poverty and family structure have major implications for education and economic performance.

The attached outline presents some ideas on the topics to be addressed by the commissioned papers, as well as some tentative suggestions of experts who might be asked to prepare short papers synthesizing the research and laying out the authors' conclusions and recommendations.

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DRAFT—3/5/96

Social and Political Implications of Major Economic Trends

Project Outline

Ray Marshall

I. Introduction and Overview—Ray Marshall

A. Basic Trends—especially technology, internationalization of markets, and demographics, combine to create a number of employment and income problems, especially:

1. The slowdown in the growth of productivity and broadly-shared national income

2. Growing inequalities of wealth and income

3. Declining real wages for most workers

4. Growing instability of employment

B. These trends cause serious social and political problems. Personal anxiety and social unrest are exacerbated by policy uncertainty, especially since the trends have reduced the effectiveness of policies that contributed to the long period of prosperity before the early 1970s.

C. The trends are international, but the adverse impact on most workers and their families has been greater in the United States than elsewhere. Other industrialized countries have had slower service job growth than the U.S. and smaller reductions in real wages, but many countries have had higher levels of long-term unemployment. Many other developed countries do more to cushion workers from the loss of jobs.

D. These developments raise a number of important issues:

1. How serious are the problems? To what extent are our perceptions wrong because official statistics fail to measure underlying realities or because of faulty analyses? How firm is our understanding of basic causal relationships?

2. To what extent are social problems like changing family structures, crime, violence, drug addiction and trafficking, and teen pregnancy related to these trends?

3. What are the long-run political and social implications if the trends continue for the next 35 years?

4. Is it possible to return to the broadly-shared prosperity the U.S. experienced in the 1950s and '60s? Are the obstacles due to basic economic principles (i.e., Okun's law, "natural" rates of unemployment) or are they mainly social and political?

5. What policies are most likely to restore broadly-shared prosperity?

6. What can we learn by examining the experiences of other countries?

7. How would you respond to the *strongest arguments* of those who disagree with your position on factual and analytical grounds?

E. The book to be produced by this project will attempt to synthesize the best research to answer these questions and the more specific ones related to each topic. Authors will be asked to ignore political feasibility and make bold recommendations that would have the best chances of improving the wage, income, and employment opportunities for most workers.

II. Basic Trends and their Implications for Employment and Income

A. Technology (Bob White, Lew Branscomb, Richard Nelson [Columbia], Paul Romer [Stanford], Michael Borrus). The main questions include:

1. General

a) To what extent are basic trends caused by technological change?

b) To what extent does technological change affect income and employment?

c) How does the U.S. compare with other major developed countries (Germany and Japan) in the development and use of advanced technology?

d) Should the United States have a specific technology policy? What should it be?

2. Labor Market Impacts

a) To what extent is the growing education-income gap caused by changing skill requirements because of technological change?

b) What policies are required to cause technological change to improve incomes for most workers? (John Bound, Richard Freeman, Barry Bluestone)

B. Internationalization (Fred Bergsten, Thea Lee, Peter Kenen, Dick Cooper, Robert Blecker). The main questions include:

1. To what extent are employment and income problems caused by internationalization?

2. How does internationalization influence the effectiveness of the public and private policies and institutions that contributed to America's past more broadly-shared prosperity?

3. What policies and institutions are needed to cause international transactions to improve the incomes and employment opportunities for most workers?

4. Should the U.S. have specific sectoral policies? (Robb Scott, Lester Thurow, Dan Burton)

C. Demographics and Immigration (Michael Teitelbaum, Leon Bouvier, Richard Easterlin, George Borjas). The main questions include:

1. To what extent do immigration and population changes influence wages and employment?

2. How will demographic changes affect future wages, employment, public expenditures, and economic conditions?

3. What immigration and population policies are required to improve incomes for most workers?

III. Productivity, Output and Employment (Bob Solow).

A. Questions include:

1. How serious a problem is the slowdown in productivity growth?

2. Is it realistic to try to restore productivity growth to the 1950's and '60's level? What, if anything, should be done to improve productivity growth?

3. Is a high income, full employment strategy possible? Desirable? How would you do it?

4. To what extent is the danger of inflation a threat to reducing unemployment and growth?

5. Is there a "natural" or non-inflation accelerating rate of unemployment (NAIRU)?

6. What policies would reduce unemployment and improve income growth for most workers?

7. To what extent are product and labor market rigidities obstacles to reducing unemployment? (Katherine Abraham, Rebecca Blank)

B. Wages (Larry Mishel). Questions include:

1. What are the main reasons for declining real wages for most workers and the growing inequality of wages and income? Given present trends, what would the distribution of wages and income be like in 2030?

2. What policies are needed to restore the growth of real wages for most workers?

3. Would higher minimum wages improve the wages of low-income workers? How serious is the threat that higher minimum wages would reduce employment? (David Card, Alan Krueger, David Neumark, William Wascher)

C. Distribution of Wealth (Ed Wolff). Questions include:

1. What are the trends in the distribution of wealth in the United States? How does the U.S. compare with other countries? What accounts for these trends and differences?

2. How serious is this problem? Given the trends, what would the distribution of wealth be like in the U.S. in 2030?

3. What policies could be taken to improve the distribution of wealth?

D. Status and Distribution of Opportunity (Isabel Sawhill)

1. What does the evidence show about the distribution of opportunity in America?

2. How serious is the problem?

3. What are the implications for the U.S. in 2030 if the trends in the distribution of opportunity continue?

4. What should be done to improve opportunity for most workers?

IV. Consequences of Trends in Income, Wealth, and Opportunity, and Policies for Improvement, for the Following:

A. Families (Pat Wong, Bob Galston, Sylvia Hewlett)

B. Women (Heidi Hartman, Barbara Bergmann)

C. Children (~~David Hamburg, Marion Wright Edelman~~) and VS Larry Aber, per VS suggestion

D. The Truly Disadvantaged (William Julius Wilson)

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2. Mental (Harvey Brenner, Mary Merva, Richard Fowles)

L. Social Security (Robert Ball, Dean Baker)

M. Corporate Governance (Bob Kuttner, Eileen Appelbaum)

V. What Should be Done?

A. Taxes, Budgets, and Public Investments

1. What kind of tax and budget policies are required to restore broadly-shared real wage growth for most workers? (Herb Stein, Bob Eisner)

2. How important is a balanced budget requirement for the federal government? Should the federal government have capital budgeting? How would you develop a tax that would be fair, produce adequate revenue, and facilitate economic growth?

3. How important are public infrastructure investments for improving productivity and restoring broadly-shared prosperity (David Aschauer, Robert Heilbroner, Jeff Faux, Richard Midge)

B. Monetary Policy and Financial Institutions

1. What changes, if any, would you make in monetary policies and institutions? (Jamie Galbraith, Alan Blinder, Felix Rohatyn)

2. What changes could be made in financial institutions to make them more effective in restoring broadly shared economic growth? (Michael Porter, Robert Pollin)

3. What can be done to make credit more readily available and affordable for community develop? (Jane D'Arista, Gary Dymsky)

C. Education and Schools (Marc Tucker, Ray Marshall, Mark Rosenzweig)

1. How important are education and training for restoring broadly-shared prosperity? What are the implications of demographic, technological, and economic trends for schools? How does the U.S. compare with other countries?

2. What should be done to develop schools that will enable the restoration of greater opportunities for most workers? How does the U.S. compare with other countries?

D. Public Training and Labor Market Activities (Bob Glover, Bob McPherson, Tony Carnevale, Garth Mangum, Jim Heckman, Gary Burtless, Chris King)

1. What are the implications of economic, demographic, and labor market trends for public labor market and job training policies and institutions? How important are these policies and institutions to the re-establishment of broadly-shared prosperity?

2. What is the proper mix between passive and active labor market activities? What would it cost in budget terms to have an effective public employment and training system to promote broadly-shared prosperity? Would this be a good public investment?

E. Private Training Activities (John Bishop, Lisa Lynch)

1. What are the conditions of private training? How does the U.S. compare with other countries? How important are these activities?

2. What, if anything, should be done to expand private training for front-line workers in the United States?

F. Public Service Employment (Richard Nathan, Garth Mangum, Vernon Briggs, Eli Ginzberg)

1. What role, if any, should public service employment play in improving opportunities for workers who are unable to find private sector jobs?

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G. Unions, Collective Bargaining, and Worker Participation (Tom Kochan, Paula Voos, Richard Freeman)

VI. Summary, Conclusions, and Recommendations (Ray Marshall)

A. Summary Chapter of Project's Principal Findings and Recommendations

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