# WALKING THE LIFELONG Tightrope

## NEGOTIATING WORK IN THE NEW ECONOMY

**A Status Report on Social and Economic Well-Being in the State of California**

**CHRIS BENNER**
**BOB BROWNSTEIN**
and
**AMY B. DEAN**

A Joint Publication of
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# Authors

**Chris Benner** leads Working Partnerships' research projects. His work includes documenting the rise of contingent employment, developing appropriate indicators of economic and social well-being in Silicon Valley, analyzing the availability and effectiveness of labor market intermediaries, and formulating local and regional economic development policy. His previous publications at Working Partnerships include *Shock Absorbers in the Flexible Economy: The Rise of Contingent Employment in Silicon Valley* and *Growing Together or Drifting Apart?: Working Families and Business in the New Economy*. His writing has appeared in the *International Labor Review, The Berkeley Planning Journal, Dollars & Sense, Third Force, The Labor Center Reporter* and *Perspectives on Work*. His recent work with Manuel Castells and Jordi Borja, published in the book *Local and Global* (1998, Earthscan Press) explores how globalization affects the dynamics of local government and local economic development. Mr. Benner is also a doctoral candidate in City and Regional Planning at the University of California, Berkeley.

**Bob Brownstein** is Policy Director at Working Partnerships USA. His responsibilities include management of major research projects expanding our understanding of the dynamics and flaws of the New Economy and the design of public policy initiatives at both the state and local level. Prior to joining Working Partnerships, he spent twenty years as a senior policy analyst in local government serving as Chief of Staff to County Supervisor Susanne Wilson and Public Policy and Budget Director for San Jose Mayor Susan Hammer. His significant policy achievements include helping to: preserve the financial stability of the County hospital; modify San Jose's affordable housing programs for the benefit of low income families, establish an expanded network of youth services throughout San Jose, and create a Greenline and fiscal triggers to prevent urban sprawl. Mr. Brownstein holds a BA from Princeton University's Woodrow Wilson School of Public Affairs, a Master of Arts in Political Science from Stanford University, and a Masters of Science Degree in Environmental Studies from San Jose State University.

**Amy B. Dean** leads the labor movement in Silicon Valley and is a leader in the revitalization of the American labor movement. As the Executive Officer of the South Bay AFL-CIO Labor Council, the eleventh largest labor council in the nation, with over 100,000 members, she has a reputation for building bridges across constituencies in her efforts to create a social contract for a new economy. She serves as Chair of the National AFL-CIO Central Labor Council Advisory Committee, a strategic effort to effectively retool and re-engineer the labor movement at the regional level. In 1995, Amy Dean founded Working Partnerships USA, a non-profit organization that has been an influential voice in the debates over national, state and regional economic development policies through its research, training, and public policy efforts. Her writing has appeared in *Labor Research Review, Crossroads* magazine and recently contributed a chapter to *Not Your Father's Union Movement* (1999, Verso Press) on unions in the new economy. She is a member of the MIT Sloan School of Management Task Force on Restructuring America's Labor Market Institutions, the Speaker of the Assembly's Commission on State and Local Government Finance, State of California Economic Strategy Panel, and is a Senior Fellow and on the Board of Directors of the American Leadership Forum in Silicon Valley. Her work has made her a much-requested national speaker on topics such as strategies for shared prosperity in the new economy, the challenges facing America's civil society, and the future of education and technology.

# Acknowledgements

This report was made possible by the financial support of Ford Foundation, the Burr Oak Fund of the Tides Foundation and the Solidago Foundation. We additionally offer our thanks to the McKay Foundation, French-American Charitable Trust, the New World Foundation, and the Unitarian Universalist Veatch Program at Shelter Rock.

**We would like to thank:**

*Larry Mishel, Jared Bernstein,* and *David Webster* from the Economic Policy Institute, without whom this report would not have been possible. They were involved in all aspects of the project, providing access to essential data sources, helping to analyze the data results, and preparing the report itself. This is the second joint publication of Working Partnerships and the Economic Policy Institute.

*The Advisory Board*, for their assistance, guidance and suggestions. The Board played an active role in reviewing drafts of the report and providing valuable insights about how to improve it.

*Jim Grossfeld*, for extensive editorial assistance and advice. *Susan Mulloy* for research and writing assistance. *Jennifer Chun* for her research assistance. *The entire staff of Working Partnerships* and the *South Bay AFL-CIO Labor Council* for their valuable assistance and input to the project. *Laura Dresser* and *Branden Born* from the Center on Wisconsin Strategy for assistance with data collection and the creation of maps to review statistical results. *The staff and faculty of the Institute of Industrial Relations at the University of California at Berkeley* for providing a beneficial and productive working environment for both Chris Benner and Susan Mulloy during the research and writing of this project.

*Marianne Wyllie* and *Su Gatch* for their assistance with the layout. *Poncho Guevara* for graphic design assistance. *John Leopold* for his production management assistance. *Community Printers* for their assistance in printing.

Dear Friend,

California is experiencing a profound economic transformation involving the rise of industries employing ever more advanced forms of information technology.  This change is generating positive outcomes, including job creation and rapid business development. However, the employment structures and arrangements associated with the "New Economy" are also producing dislocations and difficulties for many working families in our state.

*Walking the Lifelong Tightrope* analyzes the increasing forms of insecurity experienced by workers as they seek to maintain earnings and find opportunity. Widespread wage stagnation, increasing inequality, and the spread of a variety of forms of contingent employment are all taking place in tandem with economic growth. The challenge this report presents to us, as policy makers, is to find ways to sustain our expanding economy while also attending to its unacceptable human costs.

While everyone may not agree with the specific recommendations in this study, the call for a reconstructed Social Contract in California is worth hearing. In the long run, our economic institutions can only thrive if the prosperity they generate is broadly shared. *Walking the Lifelong Tightrope* is a serious effort to help California achieve this goal.

Sincerely,

John Burton<br>
*President pro Tempore*<br>
California State Senate

Antonio Villaraigosa<br>
Speaker of the Assembly<br>
California State Assembly

# Foreword

*"The whole saga of frontier growth and westward expansion, the story book version of the American Dream, was given its penultimate staging in a semitropical setting at the western edge of the continent."* —Carey McWilliams

Carey McWilliams' words described the California of the 1920s, but to every generation since that era the Golden State has remained the living embodiment of the American Dream. Long before anyone would ever use the term "reinvention," it was California that offered every American a fresh start and a new opportunity for success.

***Long before anyone would ever use the term "reinvention," California offered every American a fresh start.***

California's emergence as an American Zion was never simply a function of its climate or distance from the aging power centers of the East. More than anything else, it was a reflection of our state's robust economy and the promise it held of a middle-class life to almost anyone willing to work for it. During the World War II era, one of every eight new jobs created in America was in metropolitan Los Angeles alone. Many of these new jobs were in aircraft, steel, aluminum, ship building and other defense industries. Given the furious pace of the state's postwar economic expansion, it was little surprise that by 1963 California had become the most populous state in the union. However, it was never preordained automatically that this economic expansion would lead to the emergence of the middle class that justified California's claim on the American Dream. Indeed, the state's middle class was as much the product of a monumental historical crusade as of growth alone.

In mid-1941, for example, more than 100,000 men and women were employed in Southern California's aircraft factories. Semi-skilled aircraft workers then earned only fifty-cents-an-hour, a wage roughly comparable to what Southern textile workers earned. The robust wages and benefits that lifted aircraft workers into the middle-class were the result of aggressive organizing by two competing labor unions—the United Auto Workers (UAW) and the International Association of Machinists (IAM). By challenging the powerful Aeronautical Chamber of Commerce and successfully introducing collective bargaining to the aircraft industry, the IAM and UAW, prevented these employers from following the "low-wage" path that textile manufacturers in the South pursued.

*The engine for much of California's economic growth is what many people call the "new economy."*

Of course, years earlier California's labor movement had previously displayed its ability to transform what were once low-wage industrial jobs into well-paying careers. The 1934 San Francisco general strike in San Francisco not only won unprecedented economic security for the longshore workers who led it, but also helped thousands of workers in the Bay Area win their own battles for union representation. In these and others instances workers proved that collective bargaining was essential to assuring that California's new jobs were not only plentiful, but often lucrative. Workers and their unions played a critical role not only in raising the living standards of union members and, indirectly, other workers but also in enhancing the quality of life and prosperity for all Californians.

That's why this report is so important.

### Wealthy, But Not Successful

California enters the twenty-first century as an economic colossus. It has become the nation's leading exporter, with more than $50 billion in merchandise for sale abroad passing through the ports and airports of San Francisco, San Jose and Los Angeles-Long Beach. The engine for much of California's economic growth is what many people call the "new economy"— a complex of service and information technology industries which, in some cases, barely existed a generation ago.

Despite the state's loss in recent years of some 500,000 well-paid jobs in defense and other industries, we're told this new economy has enabled California to compete — and win — in the new global economy. California's old economy manufactured automobiles, aircraft and steel. Its new economy — growing out of the defense and entertainment industries of the past — is producing the world's most sophisticated electronic equipment, creating its entertainment, operating its finest health care facilities and serving as a global center for research and development in dozens of new fields. There's no question that California is setting the pace for economic growth, but all that glitters is not gold. Our state is wealthy, but more comprehensive measures show we do not yet enjoy a fully successful economy.

***We see the hourglass economy in the growth of contingent work and low-wage employment.***

### The Hourglass Economy

Historian Fred Siegal argues that California has "an hourglass economy" marked at one end by growth in well-paying, highly skilled professions and, at the other, by the rapid expansion of low-wage jobs requiring only unskilled labor. We can see evidence of the hourglass economy in the growth of both part-time or contingent work and low-wage and low-skill employment. This is the California of waiters, waitresses, cashiers, sales clerks, low-skilled health care technicians, and similar workers. Many others are employed in Southern California's growing garment industry. Often the men and women holding these jobs are recent immigrants struggling to make their own American Dreams come true. However, the low wages and inadequate benefits they earn offer not the promise of advancement, but only the guarantee of poverty. Still, these workers are not the only Californians at risk.

At the other end of the hourglass, the explosive growth of California's information technology (IT) industries has created a new class of workers who today face an old dilemma. Though California's IT workers are among the world's most productive, even highly skilled professionals are often regarded as little more than a disposable commodity by the state's IT firms.

Many of these companies have set themselves up as "virtual" corporations — businesses that use flexible networks of partners and subcontractors to produce goods and services rather than develop their own internal capacity to do their work. These companies regard a permanent, experienced workforce less as a strategic asset than as an unnecessary expense. This pattern is particularly threatening to middle-aged and older workers. The working lives of many of California's IT professionals are similar to those of professional athletes whose earning capacity peaks early in their careers, but who become almost unemployable as they grow older.

***Economic insecurity has become the defining characteristics of the new economy for Californians at both ends of the hourglass.***

Economic insecurity has become the defining characteristics of the new economy for Californians at both ends of the hourglass. Over many years of bargaining, unions persuaded employers in the aircraft and automobile industries to offer generous wages, health care, pension benefits, and income security during layoffs or massive restructuring. Union contracts provided workers security and employers an experienced, stable workforce. But corporations in the relatively union-free new economy have taken the opposite approach. With their growing dependence on contract and contingent labor, these businesses see little reason to promote workforce stability to begin with, let alone provide costly benefits to sustain it. Without any form of collective bargaining, Californians working in even the most profitable businesses of the new economy have all too often been left to fend for themselves, shouldering more of the risk of a highly volatile environment.

For example, as this report describes in detail, the largest single category of new jobs created in California in recent years has not been software engineers but employees of temporary help agencies. Compared with a few decades ago or even with other parts of the country, workers in California today are more likely to work a shorter time for any single employer, change jobs more frequently, endure longer periods of unemployment, and suffer greater difficulties in finding good jobs as they get older. In all businesses, but especially in the many smaller, entrepreneurial firms, they are less likely to have secure or comprehensive health care, pensions or other benefits. Even when they perform essential tasks for larger firms, growing numbers of workers are employed in some contingent, contractual relationship that typically increases their insecurity and denies them a share in the success of the larger, core business. All these trends affect not only the less educated workers but even those with advanced degrees.

In addition, the new economy requires continuous learning, but our institutions do not provide it. Many workers at the bottom of the hourglass economy are stuck in low-skill jobs that give them little opportunity to forge meaningful careers that offer new challenges and opportunities. Even workers in the top of the hourglass are often expected to develop new skills repeatedly during their careers but are provided few formal opportunities for further education at work or among fellow workers or members of their profession, where it would be most helpful.

## Forging The New Social Contract

Citing recent declines in unemployment, productivity gains, and increases in workers' wages, some analysts have argued that market forces will ultimately ease all the social costs of the new economy. This report argues that in most cases that will not be true without new public policies and an organized voice for workers. As Asia's financial crisis demonstrates, California has plentiful opportunities in the global economy, but we also are exposed to serious new risks. In this light, we cannot only concern ourselves with policies that promote economic growth. We must renegotiate the social contract to assure that as new industries move ahead, our families aren't left behind.

*The social contract we envision is less a reconfiguration of the old than a redefinition of the responsibility of each major actor.*

The social contract we envision is less a reconfiguration of the old arrangements between business and labor and government than a redefinition of the responsibility each major actor in the economy has to promote a shared prosperity. For business, particularly firms in the IT and service industries, that means acting as good corporate citizens of the community even as they work to succeeding in a competitive, fast-changing marketplace. Employers have a responsibility to help assure that every Californian not only earns fair wages but also receives the training and education necessary to contribute to our state's economic growth. When all employers share the responsibility of training, they will all benefit and no one employer will bear an undue burden.

In a similar vein, policy makers — in our local communities, in Sacramento and in Washington — need to understand that the collapse of the old social contract requires the public sector to play a creative role in helping to shape a new one. This doesn't

***Organized labor will have to redefine the relationship not only between unions and employers but also between workers and the labor movement.***

require policy makers to resurrect particular programs of the New Deal and the Great Society, but it does demand they recognize the essential wisdom of those earlier initiatives—that promoting shared prosperity is a legitimate function of government.

Organized labor also faces new challenges. As America's unions eliminated some of the most brutal employer practices of the past and encouraged even non-union firms to adopt more humane practices and pay higher wages, many Americans came to believe that unions were no longer as needed or useful as they once were. However, not all of the traditional problems that led workers to turn to unions have vanished, and new challenges to workers have arisen in many industries and occupations. Organized labor still has a vital role in shaping California's future, but in order to do so, it will have to redefine in many cases the relationship not only between unions and employers but also between workers and the labor movement.

Today only two percent of computer workers engage in collective bargaining. Unions in the past either have not tried hard to organize workers in this industry or they have encountered both stiff employer resistance and the belief by many workers that traditional forms of unionism do not address their needs. The industrial unionism of an earlier generation was appropriate for representing the workers of California's old economy, but a different kind of unionism will needed for many workers in the new economy.

Like unions that successfully brought collective bargaining to California's entertainment industry, the next generation of unions will need to organize and represent workers who are hired for specific projects and frequently change employers. Like unions representing workers in the construction or maritime industries, the next generation of unions will also be called on to offer the training that provides their members with added value to potential employers. Similarly, the labor movement of the next generation will need to be as tightly woven into the fabric of community as many industrial and public sector unions are today.

We have already seen the first signs that this next generation of unionism is taking shape in California. In 1996, we saw it in Los Angeles where local union activists joined with community groups to win passage of a “living wage” ordinance guaranteeing higher pay for workers at non-union city contractors. Also, after a decade-long effort that involved building a community coalition to win new legislation and organizing a dispersed, contingent workforce, 73,000 home health care workers in Los Angeles recently voted to unionize. More recently, living wage policies have been adopted in San Jose and Oakland. In San Diego, Los Angeles and San Francisco, organized labor has won passage of ordinances designed to retain the same workers in city jobs that are under contract to outside firms, even if the contractors may change.

***We have already seen the first signs that this next generation of unionism is taking shape in California.***

In San Jose the labor movement has recently formed together@work, an organization for contingent workers primarily in clerical fields. together@work represents one face of the new unionism, by forming a network that covers many firms, provides portable benefits, offers training and helps to establish a regional definition of skill standards. In addition, this growing organization acts as an advocate for contingent workers at the same time that it is providing services. San Jose’s labor community has also established its own temporary employment agency. The agency is demonstrating that it can pay temporary workers at higher rates than other staffing firms while operating according to a code of conduct that respects workers’ rights and needs.

This kind of reinvented unionism alone will not forge the new social contract, but it can provide models for unions and employers. In the long run, however, without vigorous and comprehensive collective bargaining, there is little assurance that even jobs in the sparkling industries of California’s new economy will help the next generation of Californians to take their rightful place in a growing middle-class.

This new social contract must do at least three things. It must guarantee that prosperity is shared equitably by all. It must reduce insecurity for workers and provide a more stable community and workforce. It must assist workers in forging a lifelong career, with education as needed along the way, that provides the opportunity for growing rewards and meaningful work. This cannot be done if workers are treated as disposable components or if businesses declare war on organizations that workers form to gain a voice in their work. Building a new social contract requires far-sighted leadership from leaders in business, government and the labor movement to develop the institutions of a democratic society for a new economy.

***Building a new social contract requires far-sighted leadership from leaders in business, government and the labor movement.***

Amy Dean
Founding Director
Working Partnerships USA
May 1999

# Executive Summary

Over the past decade, California's economy has changed in striking ways that have profound implications for the state's working families. This report's central conclusion is that California's recent dramatic economic growth has carried with it a hidden and escalating cost—increasing economic insecurity for most workers at a time when there are fewer tools available to help them adapt. Workers at all income levels are increasingly vulnerable to rapid changes in our volatile, information-based economy; and inequality has not only increased markedly but also is likely to grow further if forceful policies are not adopted to reverse the trend. Given the heightened instability and rapid change inherent in our rapidly growing technology sectors, even many working families who are doing well at the moment face uncertainty about their economic futures.

The causes of these problems are deeply rooted in the nature of our new economy and particularly in the failings of our social and public institutions to adapt to these economic changes. Solving them will require fundamentally rethinking the nature of our social contract. Government, business and labor must develop new institutions and policies that protect the working poor and raise their wages, provide effective bridges from low-paid to high-paid occupations and industries, and provide lifelong learning opportunities that help people find rewarding work, even in the face of economic volatility.

### Economic Transformation

In the early 1990s, California underwent its most severe economic downturn in a generation. Damaging effects of a national recession were compounded by reductions in military expenditures, which hurt the large defense sector of the state economy. There was a net loss of more than a half million jobs between 1990 and 1993.

Since 1993, however, economic growth has been unusually dynamic, both in the scale and the pattern of the recovery. Other

## WORKING CONDITIONS IN THE TIGHTROPE ECONOMY

**Major findings of this report:**

(except where national figures are specified, all statistics refer to California)

***Temporary employment agencies constitute the industry with the greatest employment growth in the last five years. Employment in the temporary employment industry expanded by 182,900 people between 1993 and 1998. This is more than the net job growth in the software and electronic component industries combined.***

### Major Findings

***Job change is pervasive in California. The median tenure for workers at their current job is only three years, and 45% of California workers have worked for their current employers for less than two years. Only 21% of California workers have worked for their current employers for more than 10 years, compared with 34.5% nationally*.**

recoveries reflected the cyclical rebound of the state's traditional employers, but the current expansion has been led by industries which, in some instances, barely existed 15 years ago. High-tech manufacturing, software development and Internet companies—combined with motion pictures, multimedia and a handful of other information-related industries—have not only led this California recovery but also are transforming the structure of the state's economy. Older industries are also adopting new technologies to enhance their own competitiveness. California's economy today is significantly different from what it was 20 years ago.

Many analysts argue that this new economy has laid the groundwork for broad growth and prosperity in this state for years to come. Their optimism could be easily understood. California's economy has flourished in recent years thanks to its new high-tech industries and its proximity to overseas markets that were rapidly expanding during most of the decade. Merchandise exports more than tripled from 1987 through 1997 and grew 53% between 1993 and 1997 alone. Jobs have been created in California over the past few years faster than in the rest of the nation, especially in many high-paying technology industries, such as software and Internet companies.

### The 'Don't Look Down' Economy

While this continuing economic expansion has generated enormous wealth for many firms, it has not significantly increased the income of working families overall. At the same time, the new structure of the state's economy is creating disturbing new trends that threaten these families' well-being, including:

- **Growing Insecurity and Volatility:** Increasingly firms need to innovate constantly, responding rapidly to technological and economic change and taking advantage of new opportunities. This 'competition by innovation' creates high-levels of insecurity in employment for large sectors of the workforce, including employees within high-tech industries facing unstable and rapidly changing market conditions. There has been rapid growth in the number of workers employed in temporary, contract, or other forms of contingent employment. Many other workers regularly lose their jobs and have difficulty finding new ones.

- **Divergent Trends in the Employment Structure:** A growing gulf is appearing both between certain sectors of the economy and within each sector. First, there is the expanding disparity between high skilled, globally integrated, high-productivity industries and industries that mainly serve local markets and primarily pay low wages. Janitors, home-health care workers, and waitresses are essential parts of our new economy, but they benefit very little from high-technology growth. Second, there is also increasing disparity within economic sectors. Even in the global, high-tech sector, full-time workers at core companies in the new networks of production may have high incomes and relatively secure jobs while workers at sub-contractor firms earn low wages and experience much instability in their employment.

- **Growing Income Inequality:** As a result of the factors outlined above, as well as changing demand for education and changing demographic characteristics of the workforce, there is growing inequality in income in California. This expanding income gap is occurring NOT primarily because wages are growing much faster for those at the top of the occupational structure, but instead because wages have declined for workers at the bottom and middle of the labor market. Since this inequality has widened during the strong rebound of the state's economy, clearly economic growth alone cannot be relied on to raise the incomes of those at the bottom of the income distribution or reduce inequality.

**Major Findings**

***People who lose their jobs are spending a longer period unemployed than in the past. Nationally, the average length of unemployment in the 1990s for men was 17.3 weeks, up from 13.1 weeks in the 1970s. For older workers—who face the greatest difficulties in retraining—the average length of unemployment for men in the 1990s was 25.3 weeks, up from 19.1 weeks in the 1970s.***

**Major Findings**

***Nearly 40% of the new jobs projected for California in the next ten years will be in occupations requiring only a high-school education or less and brief on-the-job training. At least 36% will be in occupations that pay on average less than $10/hour.***

***Polarization of wages is most striking among workers with different educational backgrounds. In real dollars, the average hourly wage for workers without a high school diploma was $8.25 in 1998—a decline of 36% since 1979. By contrast, the average hourly earnings of workers with advanced college degrees have increased 11% since 1979.***

Because of this fundamental transformation of the state's economy and the dramatic growth in information technology industries, most Californians now must walk a lifelong tightrope—one that is poorly anchored in stressful and unstable employment. At the same time, people face serious potential risks if they slip on this tightrope or the rope fails. Economic vibrancy and volatility seem to be two sides of the same coin. While California's emerging economy carries the promise of continued growth and added prosperity, most families will not share in this potential if the great divisions and imbalances of the new economy are not addressed.

### The Social Contract, Old and New

Today's level and forms of insecurity and inequality are quite new. In the three decades after World War II, the United States experienced a period of remarkable economic stability, accompanied by rising wages and improved standards of living for the vast majority of Americans. These "wonder years" of the American economy, however, did not rise simply from market dynamics. Instead, they were made possible by a series of national policies that created a broad social contract. These policies—ranging from the unemployment insurance and social security systems to the minimum wage and our system of labor relations—created an institutional and economic system that was beneficial to nearly everyone. Business flourished because of a growing consumer middle class. Productivity gains were passed on to workers in the form of higher wages. Government programs helped limit the severity of economic downturns and redistributed the fruits of prosperity to the less fortunate.

These policies, however, were developed for an industrial economy when employment was relatively stable and firms retained long-term ties with their employees. Since the early 1970s, such policies have been eroded and are no longer serving the function of stabilizing the economy by broadening access to its benefits. In today's economy, with greater volatility and more tenuous ties now typical of the relations between employers and employees, the policies of the post-war years are largely inadequate to provide support for most workers.

A new social contract is needed to guarantee that prosperity both continues to grow and is equitably shared in the new economy. Public policies must be designed to support the economic flexibility that firms need to be competitive while also minimizing insecurity and ensuring that the risks and rewards of the new economy are divided more broadly.

Because the economic changes which have occurred are fundamental—creating entirely new industries and dramatically restructuring both competition and production systems in older industries—the new social contract must be comprehensively redesigned. Piecemeal reforms of existing programs and institutions will likely be ineffective. As the old system breaks up, we also have an opportunity to build institutions that are more inclusive than in the past, creating a new social contract that truly realizes the ideals of a democratic system with opportunity for all to fulfill their potential.

Developing such comprehensive reforms will not be easy. During the era of industrial mass production in this country, it took a major depression to provide the stimulus to create policies and institutions appropriate to the new structures of employment. Californians today should learn from mistakes of the past and implement a comprehensive new social contract at all levels—local, state, national and global—before the costs of inaction escalate.

The purpose of this report is to present a framework for a new social contract. Finding the most effective policies and institutions will require refinement through research, discussion, and

**Major Findings**

***In the public sector, the average hourly wage for union workers was $19.21—nearly 23% more than the $15.67 per hour earned by non-unionized public employees. In addition, unions raised the average wage of their members 7% from 1985 to 1997, while the average wage for non-unionized public sector workers declined by nearly 7% over the same period.***

experimentation in the community, the state and the nation. Any new social contract, however, will have to address four social needs:

- **Increase Workers' Earnings and Financial Assets:** Most workers—not just those earning very low wages—need higher incomes. They especially need policies that increase their earnings over their entire work lives and that help them accumulate a variety of financial assets. In addition to providing a more secure livelihood, expanding workers' financial assets can help them deal with layoffs or displacement.
- **Reduce Insecurity and Minimize the Harm of Dislocation:** Dislocated workers need more support during periods of economic pressure and more assistance in finding new jobs which provide adequate incomes.
- **Provide Lifelong Education for Work and the Development of Careers:** To find and keep good jobs in the new economy, workers need access to education throughout their work lives and organizational help in developing careers and networks of support.
- **Promote the High Road to Economic Development and Block the Low Road:** Economic development programs and public subsidies should reward only employers who pursue high-road strategies to counter competition and grow. In addition, public policy should cut off assistance to firms that try to compete by avoiding regulations, cutting wages and benefits, increasing insecurity, or excessively eliminating jobs.

**Major Findings**

***Despite declining unemployment and economic expansion, wages have stagnated or declined for most workers. Between 1994 and 1998, a period of major expansion, the real median wage for all workers declined by 1%. For male workers, it declined even more, by 5% over four years. Long-term trends are even more alarming. In real terms the 1998 median wage of $11.96 an hour was 10% lower than the median wage in 1979. The average hourly wage for men at the low end of the labor force (the bottom 20%) was $7.13 in 1998, nearly 30% less than the equivalent hourly wage in 1979.***

In order to ensure the effectiveness of these approaches, public authorities need better systems to identify and document insecurity. Additional data will both help officials locate the particular industries, occupations or regions where earnings fluctuations are more frequent and understand the impacts of instability on families, thereby facilitating development of targeted assistance and retraining programs.

Ultimately, with such a comprehensive approach, appropriate public policies can support economic flexibility and minimize the problems of insecurity, while also ensuring broadly shared prosperity. In this win-win-win scenario, a new social contract could make the new economy work for everyone.

**Major Findings**

***Labor unions, which now represent a much higher percentage of workers in the public sector than in the private sector, continue to significantly improve their members' income in private sector employment. In 1997, the average hourly wage for all unionized workers in the private sector was $16.80—a full 20% more than the $13.93 hourly wage earned by non-union employees. However, the loss of relatively high-paying unionized jobs in the manufacturing and defense related industries contributed to a decline in the average wage for private sector unionized workers in recent years.***

# 1. Introduction

*"When we talk about the new economy, we're talking about a world in which people work with their brains instead of their hands. A world in which communications technology creates global competition—not just for running shoes and laptop computers, but also for bank loans and other services that can't be packed into a crate and shipped. A world in which innovation is more important than mass production. A world in which investment buys new concepts or the means to create them, rather than new machines. A world in which rapid change is a constant. A world at least as different from what came before as the industrial age was from its agricultural predecessor. A world so different its emergence can only be described as a revolution."*

—*Wired* Magazine, *Encyclopedia of the New Economy*[1]

*"I never chose temp work voluntarily, but I had to, since I got laid off and couldn't find permanent work. The time I've spent as a temp ruined my financial situation, my self-esteem, and destroyed any sense of my career direction. The credit card debt that I racked up would have easily been a decent savings account if I didn't have to do that bout of temping. There is psychological damage in having to constantly 'learn' the same old thing over & over. The need to constantly learn can be very stressful, and actually eats away at my creative energy, since I have to become short-term, rather than long-term oriented."*

—'Melissa', Executive Assistant in Silicon Valley[2]

***Simultaneous record layoffs amid record growth in employment are just the most obvious sign of deep, divergent forces changing our country.***

### Working Families and the New Economy

The U.S. economy set records in 1998 in two important ways. First, December 1998 was the ninety-third consecutive month of growth, marking the longest peacetime period of economic expansion in this country's history. With unemployment at the lowest levels in a generation, inflation in check, and even some signs of rising wages after years of stagnation or decline, the U.S. economy was often described as 'the envy of the world'. Nevertheless, 1998 was also a record year for corporate layoffs and downsizing. According to a regular survey from the out-place-

***Why is it that in the richest country in the world, so many people face such uncertainty in the status of their current employment?***

ment firm, Challenger, Gray & Christmas, companies announced a total of almost 700,000 layoffs in 1998—56% higher than in 1997 and the highest since the survey began in 1989, prior to the last recession. The simultaneous record layoffs amid record growth in employment are just the most obvious sign of deep, divergent forces changing our country.

During the 1990's, American society—including business—was transformed by dramatic advancements in computers, the Internet, telecommunications, and a wide range of related information and communication technologies. These technologies are creating opportunities for many, but most Americans feel increasingly uncertain about the future for themselves and their children.[3]

Despite some recent gains, wages remain in real terms well below what they were two decades ago for most Americans and have not even returned to their level before the recession of the early 1990s. Equally significant, many working families experience growing stress and insecurity as they try to cope with rapidly changing economic conditions, unreliable paychecks and benefits, unpredictable employment opportunities, and growing pressures on the job.

Why is there this discrepancy between economic dynamism and personal insecurity? Why is it that, in the midst of the longest peacetime economic expansion in this country's history, more people are being laid-off than ever before? Why is it that in the richest country in the world, so many people face such uncertainty in the status of their current employment, and worry so much about their economic future?

These questions are not often asked by the enthusiastic analysts of the new economy. Some see nothing but positive developments from these altered structures, arguing that workers will enjoy tremendous benefits from becoming 'free agents', developing multiple new careers and moving from opportunity to opportunity. For them, the growth and dynamism of the new economy will ultimately translate into improved well being for all. Other analysts recognize the growing insecurity and inequality but argue that solutions lie in improving our educational system and providing new training opportunities for people. For them, the new economy does raise challenging new issues for public policy, but those are best addressed through giving higher priority to education and making government more flexible.

***Vibrancy and volatility seem to be two sides of the same coin in our emerging economic structure.***

This report recognizes that the new economy offers a tremendous promise of economic dynamism and prosperity. But it also contends that the new economy is fundamentally more volatile and insecure. Furthermore, it argues that the resulting problems for workers and their families cannot be addressed simply by improved education and training systems, though these are obviously important. Instead, this new insecurity calls for a more comprehensive and fundamental restructuring of our employment system and the creation of a new social compact to ensure widely shared prosperity.

## The “Don’t Look Down” Economy

Fueled by rapidly changing technology, constantly shifting products and markets, and intense global competition, the new economy is fundamentally uncertain, volatile and rapidly changing. For some people, this creates new opportunities and exciting work. However, many people—including many with well-paid jobs—primarily experience new levels of anxiety and fear. Vibrancy and volatility seem to be two sides of the same coin in our emerging economic structure.

So many people feel insecure not only because of rapid changes in the economy but also because our social and political institutions have failed to adapt to these changes. Employment policies and institutions that once improved average living conditions as prosperity grew no longer function effectively for large parts of the workforce.

Just a generation ago, many workers held full-time, long-term jobs in firms that offered relatively well developed opportunities for advancement and often assumed a mutual loyalty between the employer and much of its workforce.[4] Based on this employment model, a range of programs and policies were developed during the New Deal era and after World War II that helped link rising wages with rising productivity and provided support for people during temporary cyclical down-turns in the economy. Taken together, these innovations constituted an integrated social contract.

***In the new economy, stable employment is rapidly disappearing.***

In the new economy, stable employment is rapidly disappearing. In its place, many firms have dramatically expanded the use of outsourcing, subcontracting, temporary and part time employees, independent contractors and other forms of contingent employment. The size of this 'peripheral' workforce is increasing rapidly, effectively closing off many advancement opportunities for those who are not employed by the core corporations. In addition, even workers in core employment positions face new problems. Firms have flattened corporate hierarchies and changed management practices, subjecting growing sectors of the workforce to the pressures of rapidly changing technology and product markets. These trends make successful internal career paths less clear, require greater flexibility and create higher levels of insecurity.[5]

To create more security for workers in the midst of this fluidity, we can not simply look back and try to recreate the stable economy of the past. Policies created during the Depression and post-World War II era will have to be seriously revised, and new policies and institutions must be developed to solve problems posed by the new economy.

The purpose of this report is to stimulate debate on the need for new institutions to address these problems and to present some ideas of what they might look like. It does so by examining the recent economic transformation in California from the perspective of the state's working men and women. The home of Silicon Valley and leading information technology industries, California hosts many of the most innovative sectors of the new economy. By reviewing recent trends, this report can realistically assess both the potential and the downside of California's changing economic forces and structures and identify solutions to counter the increasing insecurity that so many Californians experience in their working lives.

## Organization of Report

This report is organized into four substantive sections. It begins with an introduction of the basic argument. Section two highlights the rise of information technology industries and the associated transformation in California's economy.

Section three examines closely how California's economic transformation affects the state's working men and women. Despite widespread uncritical claims that promoting competitiveness and technology-led growth benefits everyone, this report demonstrates that the new economy has increased both inequality and insecurity for most workers.

In section four, an analysis is presented which evaluates how the social contract that evolved from the New Deal through the 1960s meets the needs of workers in this new economy. The state's policies on unemployment insurance, industrial relations, workforce development and training, and social benefits (health care and retirement in particular) all prove to be poorly suited to an economic environment in which rapid change is the norm.

The final section outlines broad policy solutions that can begin to address the problems of insecurity in the new economy. These recommendations are not presented as a fully developed set of proposals. Instead, they are designed to stimulate debate about solutions to the issues highlighted in this report.

***This report demonstrates that the new economy has increased both inequality and insecurity for most workers.***

# 2. The Emerging Information Economy—A Transformation for California

The rapid, widespread commercialization of information technology is transforming the structure of the United States economy. Like earlier technological watersheds, these information technologies are bringing changes far more profound than those wrought by normal patterns of innovation or recurrent business cycles. The fundamental task of information technology is to store, manipulate and communicate information. Since all social activity, including business, relies on communication, information technology affects nearly every aspect of our lives. Its widespread use—from retail sales to transportation, from agriculture to social services—is changing how businesses compete and how markets operate.

***These information technologies are bringing changes far more profound than those wrought by normal patterns of innovation.***

This transformation began in the early 1970s as computers became commercially important, then expanded again over the last 20 years with the spread of personal computers. Computers are likely to undergo even more dramatic development in the next 20 years, as they become smaller and more powerful. They will become an even more ubiquitous part of everyday life, being built into cars and houses, clothing and even being installed under the skin. The expansion of the Internet in the 1990s is further accelerating technological and economic change in new and largely unpredictable ways. The rapid development of wireless technology allows even small, remote devices to be linked into the Internet, greatly enhancing their power.

Some of the most profound changes are likely to occur in biotechnology. Biotechnology essentially involves the decoding and manipulation of information stored at a cellular level in DNA strands. Genetic manipulation has already had a tremendous impact on agricultural production, yielding dramatic improvements in productivity and genetic methods of pest control. Assisted by rapidly expanding computing power, scientists are expected to map the entire DNA structure of humans early in the next century. Cutting-edge companies are even embedding molecular components of genes directly in a silicon chip, making it possible to analyze genetic material almost as fast as a microprocessor shifts bits. This is already having tremendous commercial applications in the pharmaceutical and medical industries, with more rapid changes on the horizon.[6]

*Networked production and heavy reliance on information technology characterize the emerging model of business in the new economy.*

The complex economy emerging from these transformations is significantly different from the industrial economy of the earlier decades of this century. Three fundamental trends, described in more detail below, are particularly important:

- First, information technology industries themselves are increasing as a portion of total economic output and becoming an increasingly central component of our nation's economic growth.
- Second, the boundaries of our economy are changing, with increasing economic activity at both a global and a local level.
- Finally, the structure of corporations and the organization of economic activity is changing, with a decline in the dominance of vertically integrated, hierarchical corporations. Instead, economic activity is increasingly organized in complex and constantly shifting networks of both small and large firms, with much greater levels of outsourcing and shifting patterns of hierarchy within industry clusters.

These trends, of course, exist to varying degrees in different sectors of the economy. However, in the same way that assembly-line mass-production industries defined an underlying structure of employment in the industrial economy, networked production and heavy reliance on information technology characterize the emerging model of business in the new economy.

### 2.1 Rise in information technology industries

This economic transformation is most clearly evident in the increasing importance of information technology industries themselves. Nationally, information technology industries are currently growing at more than double the rate of the economy as a whole. According to the Department of Commerce, information technology industries alone are responsible for more than a quarter of America's real economic growth in the past four years, and information technology now represents over 45% of all business equipment investment. The growth of the Internet is particularly dramatic. The number of U.S. users of the Internet is now greater than the number who have cable television, while Internet "traffic" is doubling every 100 days.[7]

Though California is not alone in driving this growth in information technology industries, California's gross state product accounts for 12% of the nation's total, and the state plays a leading role in nearly all of the key sectors of the new, information economy.[8]

***California firms employ 27% of the United States workforce in the computer industry.***

- Specifically, California firms employ 27% of the United States workforce in the ***computer industry*** and over half of those in computer peripheral equipment. California accounts for 25% of both employment and revenue in the nation's ***semiconductor industry.*** For all of ***high-tech manufacturing***[9], California had 20.7% of national employment in 1998, its highest level ever.
- California is by far the nation's leader in ***computer software,*** accounting for 20% of U.S. employment in the software industry in 1996 and 25% of the national software payroll (about $7.7 billion that year). By 1998 the state had more than 16,000 multi-employee businesses in software and data processing as well as 240,000 employees and many more sole proprietorships in these fields.
- Despite recent defense cutbacks, California dominates the country's ***aerospace industry,*** with 23% of total aerospace production, including 35% of the country's search and navigation equipment production, and 28% of missiles, spacecraft and parts. The industry accounted for an estimated $29 billion worth of revenue in 1995. This industry is not only a heavy consumer of electronics and other component parts, but in turn contributes dramatically to further technological development. Many aerospace companies are increasingly pursuing commercial satellite development, with over 280 California firms manufacturing satellites or their components.
- California is the world's leading center for ***biotechnology,*** generating over $7 billion in revenue a year. There are an estimated 376 biotechnology companies in California, composing one-third of the nation's total. In the related fields of biological products and commercial physical research, the state accounts for 27% and 17% respectively of the nation's total employment.

***High-technology industries flourish throughout California, not only in Silicon Valley.***

- The 'convergence' of computer, data, voice, movie, and telephone technologies is giving a tremendous boost to the state's ***entertainment technology and multimedia industries.*** Entertainment technology involves enhancement of television, motion pictures and video by computers and telephony. Multimedia refers to the interactive combination of digital video, sound and text delivered via the Internet, CD-ROM discs or television. There are no accurate estimates of total production and employment in these nascent, rapidly changing industries. However, as the home to over half of the nation's workforce in motion picture production, California is well suited to play a leading role in all of these expanding sectors.
- Innovation and entrepreneurship are key components of the new economy. In 1997 California businesses received 37% of all ***venture capital*** invested in the United States ($4.5 billion), more than the combined total of the next eight most highly ranked states.

High-technology industries flourish throughout California, not only in Silicon Valley. For example[10]:

- While Silicon Valley job growth slowed in 1998, the rest of the Bay Area continued to grow. The East Bay, and Sonoma County posted the largest employment growth rates in the San Francisco Bay region. The Bay region is extremely strong in multimedia, software and Internet-related services, and companies such as Pixar and Industrial Light & Magic are increasingly prominent in the entertainment technology industry. It is also one of the centers of bio-technology research and development in the country, providing sites for at least 61 major biotechnology firms and one of the top medical research universities in the world at the University of California, San Francisco. In addition, it is a key source of venture capital for future high-tech growth.
- The Sacramento area is rapidly emerging as a major high-tech manufacturing center, with the opening of new production centers for companies such as Packard Bell, Apple, Intel, Hewlett Packard and NEC. Oracle (software) has also recently begun operations in the area. The region's low prices for land and housing, along with its proximity to the Bay Area, make it

an attractive site for high-tech expansion. Engineering and management services, which are integral to high technology, constitute a major growth sector as well.

- The economy of the Los Angeles Basin has recovered strongly in the past four years, although Los Angeles County itself still lags behind. The decline in defense and aerospace employment has been offset by dramatic growth in employment in other sectors. This "convergence" of film, television, video, Internet and computer technologies has placed the region's entertainment industry in a strategic position in the multi-media world. In addition, the region has a strong lead in the growing commercial satellite production and launching industry. Its diversified manufacturing base is increasingly technologically sophisticated in its production systems as well.
- San Diego seems likely to be the fastest growing region in the state in coming years, with much of that gain coming in new industries, such as telecommunications and biotechnology. The region's biotech sector has grown significantly, assisted by research at UC San Diego, and it ranks behind only New England and the San Francisco Bay Area in the number of biotechnology firms. Advanced telecommunications, particularly wireless communication, is a growing sector, paced by industry leader Qualcomm.

***The decline in defense and aerospace employment has been offset by dramatic growth in employment in other sectors.***

In all information technology industries, the pace of technological change is unusually rapid. In line with Moore's law (the prediction made in 1965 by Intel co-founder Gordon Moore), the power of integrated circuits has been doubling every 18 months for the last 25 years. In the next few years, the leading edge technology for total bandwidth in telecommunications is predicted to grow at an even faster rate, nearly tripling every 12 months.[11]

Once this technology is incorporated into our telecommunications infrastructure—particularly into individual homes—it will allow faster transmission across vast distances of more complex information (particularly visual images and sound). Ultimately, this will make it as easy to look at and converse with someone on the other side of the globe as it is in person. As the technology of virtual reality develops, even sophisticated movement and touch sensations will be transmitted through the Internet.

***Nike contracts all of its million-plus shoes per year to manufacturers in Asia.***

These rapid technological changes, however, will have dramatic implications for market condition and economic competition in a whole range of industries, from music, publishing and entertainment to education, medical care and social services. They will influence the design and production of consumer goods as well as transportation and construction. New products, new production processes, and new ways of providing various services will emerge in all of these industries. Businesses will face intense competition in unstable and rapidly changing markets. Product life cycles will continue to shrink, and firms will need to innovate constantly to maintain market share. The result will be high levels of volatility. In this context, in the words of Intel co-founder and Chairman Andrew Grove[12], “only the paranoid survive.”

### 2.2 Changing Boundaries of the Economy: Globalization and Localization

In recent years, international trade, investment and investment flows have increased significantly. More than $1.3 trillion changes hands every day in global financial markets, leading to tremendously volatile flows of capital that are largely beyond the control of any single government or financial institution. Our imports and exports combined now total the equivalent of 29% of the U.S. Gross Domestic Product, up from 17% only ten years ago.[13]

In addition, information technology allows firms in all industries to decentralize their operations on a global basis, moving many operations to low-cost areas around the world, while still managing complex production processes and sub-contracting supplier relations from management centers in the U.S. A prime example of this pattern is the Nike Corporation. Often thought of as a footwear manufacturing company, Nike is actually a highly successful design, distribution and marketing firm. It manufactures none of its own footwear, contracting all of its million-plus shoes per year to manufacturers in Asia.[14]

This increased competition and volatility in international markets, combined with domestic deregulation, greatly increases workers’ vulnerabilities to market shifts and economic change. The frenetic pace and harsh demands of global financial markets

The share of the workforce in industries that serve only a local area has increased.

puts increased pressure on firms to cut costs and improve financial performance or face sharp drops in the value of their stock shares. Also, since some innovations are quickly matched by competitors, those businesses lose some of the increased profits (or rents, as economists say) that normally come to market leaders and are forced into price competition over unspecialized commodities. Increased price competition means firms face pressure to cut costs and to innovate continually in order to stay ahead of the rapid pace of change.[15] Many businesses choose to cut costs by directly reducing the wages and benefits of workers or indirectly by moving operations overseas, subcontracting, or relying on contingent workers.

Though it may seem contradictory, in addition to experiencing increasing globalization, the economy is also typified by increasing localization. Localization refers to the increasing importance of economic activity at a metropolitan, rather than a national scale. This phenomenon results partly from shifts in the sectoral composition of the economy. As manufacturing jobs have declined and service jobs have increased as a percentage of total employment, the share of the workforce in industries that serve only a local area (for example, retail sales, social services and health services, education, and public service ) has increased.[16]

These industries are somewhat affected by global trends, but they are primarily shaped by local markets. Also, as globally integrated industries locate activities on a truly worldwide basis, they often pay special attention to the characteristics of local areas (for example, physical and social infrastructure, characteristics of the local workforce, and the potential for new markets for products). Thus, the character of local government, public-private partnerships, educational institutions, and the regional workforce plays an increasingly important role in shaping economic development.

Finally, firms have moved persistently away from vertical integration and towards more complex sub-contracting and networked production relations in regional agglomerations of related firms and industries. In this type of industry structure, the nature of the relationships between local firms and their suppliers,

***These flexible arrangements makes workers more vulnerable, as companies are able to shift supplier and sub-contracting relationships quickly.***

between firms and local governments, and between workers in the region plays an important role in shaping the direction of economic activity. While industry and commerce are still highly vulnerable to changes in the global economy, localization may provide new opportunities for policies to strengthen local industries and improve working conditions.

### 2.3 Changing Industrial Structure: Subcontracting, Outsourcing and Networking

Information technology allows firms to flatten organizational hierarchies, to remove middle managers, and to shift more responsibilities to lower levels in the organization (though often without compensating workers for increased responsibility). At the same time, higher level managers gain the capacity to more directly monitor the activities of many employees. In addition, firms have increasingly outsourced much of their operations. Improved communication and information technologies allow more fluid boundaries between firms. Producers, suppliers, financiers, developers, marketing and advertising firms, and consumers form increasingly complex and changing networks.[17]

These flexible arrangements makes workers more vulnerable, as companies are able to shift supplier and sub-contracting relationships quickly and easily, depending on market changes or managerial tactics, with little responsibility to the workers effected.

This network of production, however, is not a seamless, unstructured flow of economic activity. Firms in related markets clump together in regional industry clusters. Small, inter-networked companies benefit significantly from being near each other. They are able to draw on a skilled, experienced pool of workers. They develop mutually supportive business ties. Often they link up with local educational institutions or public-private partnerships. Together, these close ties lead to improved collective learning, innovation, and dynamic development in the industry cluster. Yet, while the cluster as a whole may thrive, individual firms often come and go, in rapidly changing configurations of relationships.[18]

*Economic growth, however, does not automatically translate into improved well being of workers or society.*

A wide range of researchers and analysts in California have recognized the importance of these changes. Recent examples include:

- **Collaborating to Compete in the New Economy**[19]—This prominent report was released by the California Economic Strategy Panel, a high-level group of experts appointed through California's Trade and Commerce Agency. It analyzes the State's economic changes and proposes new strategic directions for economic development policy. The report highlights the rapid growth of information-based industries in the state and the ways these technologies are altering the economic structure in many traditional industries as well (for example, agriculture and apparel). It advocates looking at the structure of new industries—based on regional clusters of related companies, rather than large firms—and developing flexible public-private partnerships to promote economic competitiveness.
- **California: Continued Economic Recovery and Restructuring**[20]—This report is the latest of PG&E's regular analyses of state economic performance. It concludes that the base of California's economy is shifting from defense and traditional manufacturing industries to information and knowledge based industries: "from goods to services, from swords to ploughshares, from PCs to the Internet"
- **California Economic Growth 1999 Edition**[21]—This latest report from the Center for the Continuing Study of the California Economy is the most detailed analysis of economic change statewide. It also emphasizes the importance of new industries, observing that "new products and technologies in advanced telecommunications, multimedia and the use of the Internet symbolize the state's leadership position in future growth industries. California already has the economic base that other regions and nations are striving to create."

These reports provide insightful analyses of California's economic transformation and provide useful statistics documenting recent economic trends. Economic growth, however, does not automatically translate into improved well being of workers or society as a whole. What these reports do not address is the central question of whether workers have been able to share in the economic promise of the new economy. In fact, aside from general figures on unemployment, job growth, and average wages, most reports on the economy focus on measures of growth and changes in industry structure and dynamics. As such, they present an incomplete picture of the economy that neglects fundamental human issues.

***Neither the risks nor the rewards of the new economy are evenly shared.***

With increased global competition, continued corporate restructuring, and the accelerating pace of technological change, uncertainty and volatility have become the hallmarks of the new economy. Nearly all actors in this international framework—companies as well as workers—face this same volatility and risk. Unfortunately for California's working families, neither the risks nor the rewards of the new economy are evenly shared.

# 3. Work in the New Economy

To fully understand California's economic restructuring, we need to take a more in-depth look at how the spread of information technologies affects wages, working conditions, and the work-lives of California's workers. This report argues that while the new economy creates economic opportunity for many, it also increases insecurity, polarizes employment between work in the global and local sectors, and widens income inequality.

*This competition through innovation creates high-levels of insecurity in employment for large sectors of the workforce.*

- **Growing Insecurity and Volatility:** To survive in today's economic climate, firms need to innovate constantly, responding rapidly to technological and economic changes and taking advantage of new opportunities. This competition through innovation creates high-levels of insecurity in employment for large sectors of the workforce, including employees within high-tech industries. An increasing number of workers are employed in temporary, contract, or other contingent arrangements. Many other workers are regularly displaced and forced to find new jobs. These problems affect the entire labor market, including many highly paid workers who despite their education and experience still face both unpredictable job prospects and rapidly changing skill requirements.
- **Divergent Trends in Job Characteristics:** There is a growing gap in the quality of jobs between different sectors of our economy, especially between highly skilled, globally integrated, high-productivity industries and the primarily low-paid industries that serve the local economy. Janitors, home-health care workers and waitresses are essential contributors to our new economy, but they see few benefits from growth in high-technology sectors. In addition to these disparities between sectors, however, there is also increasing disparity within sectors, between the low end and high end of industry clusters. The rise of networked production relations allows companies at the core of these networks to thrive, while excluding many subcontracted workers from the benefits of that growth.
- Growing Income Inequality: There is great debate over how much weight to give to each of the several causes of growing income inequality. Clearly, a significant influence on California's rising inequality comes from the changes described above — insecurity and polarization of jobs, increasing demand for more

*The once reliable tie between workers and their employers is becoming more tenuous and frayed.*

highly educated workers, and rising immigration of workers with low levels of education. Most economists now acknowledge that globalization—including trade and capital mobility—accounts for at least 20% of growing inequality, and many analysts weight it much more heavily. This expanding income gap is occurring **not** primarily because of wage growth at the top of the occupational structure, but instead, because wages are declining for workers at the bottom and middle of the labor market.

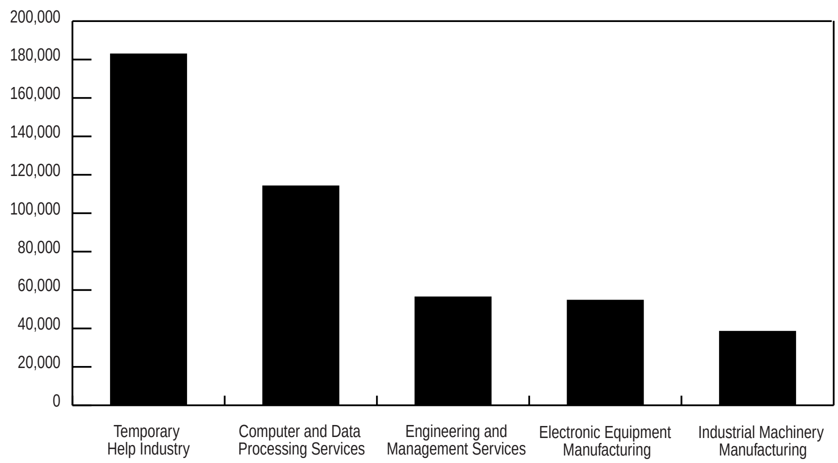
These trends are analyzed in more details below.

### 3.1 Employment Instability and Volatility

One of the most difficult challenges facing workers in the new economy is escalating levels of insecurity in keeping or finding employment. The well-defined, stable jobs that were the core of employment 30 years ago are increasingly disappearing. Work itself is becoming more unpredictable, as job requirements and working conditions continue to change rapidly. Also, more workers are employed through a variety of contingent work arrangements, while even those workers in standard employment relations have to change jobs and careers more frequently than in the past. The once reliable tie between workers and their employers is becoming more tenuous and frayed.

A vivid indication of the growth in instability is the dramatic rise of the temporary help industry. Between 1993 and 1998, personnel supply firms added 182,900 jobs to the California economy—making temporary help jobs the largest single category of new jobs in the past four years. Employment growth in the temporary help industry has been as great as employment growth in the software and electronic equipment manufacturing industries combined. Temporary workers are placed in a variety of companies and industries, but in nearly all cases their employment is highly insecure. Wages in the temporary help industry average the equivalent of $19,000 a year, with little access to health insurance or other benefits, far less than comparable permanent jobs pay.

**Chart 1: Net New Jobs 1993-1998**
**Temporary Help Industry Compared to High-Tech Industries**




Data: California Development Department, Labor Market Information Division, *Labor Force and Industry Employment*

***Even supposedly permanent jobs are lasting shorter periods of time.***

Temporary help jobs, however, are only one sign of increasing insecurity of employment. Even supposedly permanent jobs are lasting shorter periods of time. According to a recent University of California San Francisco survey, almost half of California's workers have been with their current employer for two years or less. The median job tenure for all workers is only three years. The UCSF study found that only 21% of employed adults in California had been with their current employer 10 years or more in 1998. By contrast, 35.4% of all workers nationally had been employed more than 10 years on their current job. While some of this job shifting is voluntary, as people move to find better opportunities, much of it is driven by undependable employment arrangements. Job displacement remains high even though unemployment rates are low: within the past three years, one out of six adults in the California labor force reported having lost a job or left their job because they expected to lose it.

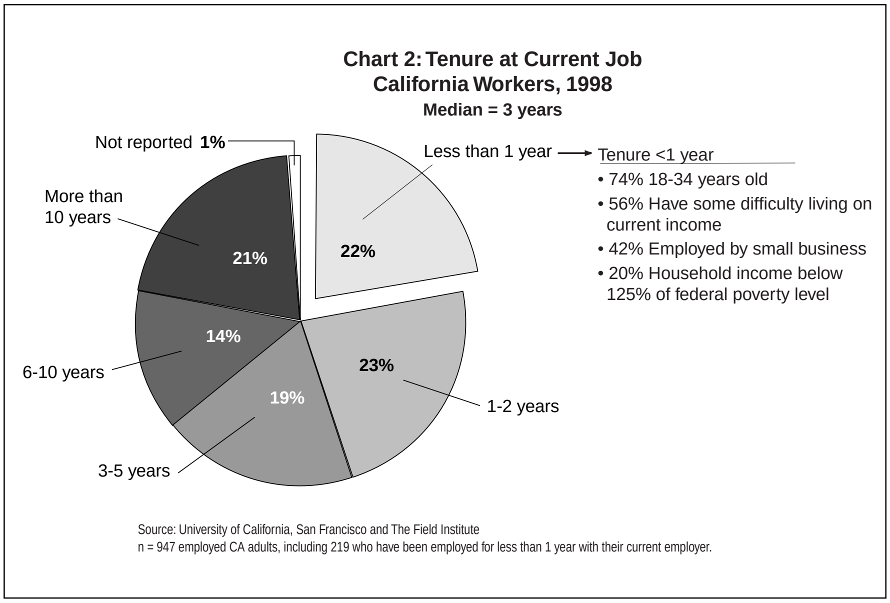


Chart 2: Tenure at Current Job
California Workers, 1998
Median = 3 years
Not reported 1%
Less than 1 year
Tenure <1 year
• 74% 18-34 years old
• 56% Have some difficulty living on current income
• 42% Employed by small business
• 20% Household income below 125% of federal poverty level
More than 10 years
21%
22%
14%
6-10 years
19%
23%
1-2 years
3-5 years
Source: University of California, San Francisco and The Field Institute
n = 947 employed CA adults, including 219 who have been employed for less than 1 year with their current employer.

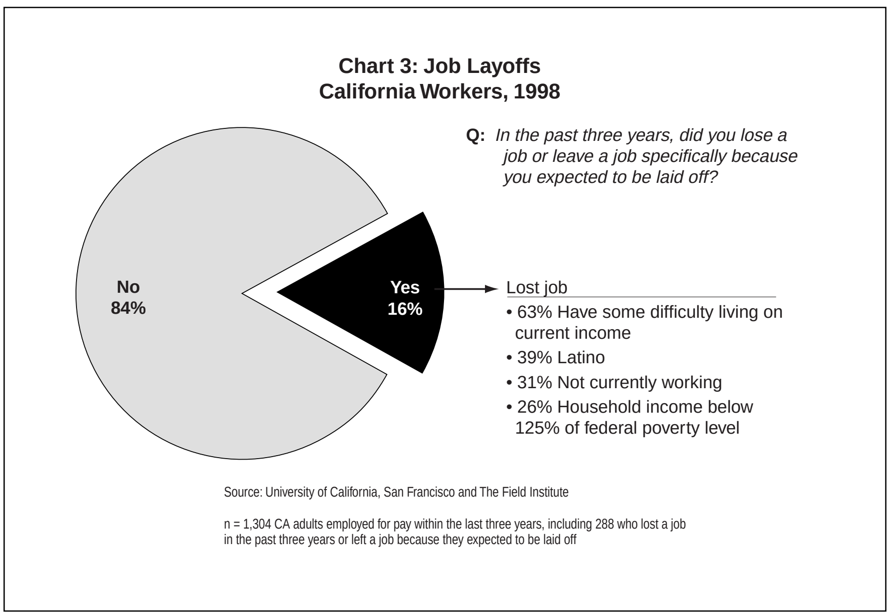


Chart 3: Job Layoffs
California Workers, 1998
Q: In the past three years, did you lose a job or leave a job specifically because you expected to be laid off?
No
84%
Yes
16%
Lost job
• 63% Have some difficulty living on current income
• 39% Latino
• 31% Not currently working
• 26% Household income below 125% of federal poverty level
Source: University of California, San Francisco and The Field Institute
n = 1,304 CA adults employed for pay within the last three years, including 288 who lost a job in the past three years or left a job because they expected to be laid off

Although there is no specific information about California available, national data clearly shows high levels of job losses in technology-based industries. In a study of lay-offs over the last six years, Challenger, Gray and Christmas, a job placement firm, found that the computer industry is a leader not only in job growth but also in job loss. The study found that from 1993 to 1998, companies in more than 30 industries announced a combined total of 3.1 million layoffs. Seven industries accounted for more than half of this amount. The computer industry ranked third in downsizing, while telecommunications ranked fourth, out-paced only by aerospace and retailing.

***The increasing pace of technological change not only throws more people out of work but also contributes to the increasing duration of unemployment.***

**Top U.S. Industries with Announced Lay-offs, 1993–1998**

| Industry | Number of Lay-offs |
|---|---|
| Aerospace/defense | 373,000 |
| Retail | 280,000 |
| Computers | 273,000 |
| Telecommunications | 251,000 |
| Financial | 241,000 |
| Industrial goods | 177,000 |
| Transportation | 135,000 |

Source: Challenger, Gray & Christmas

### Technology Increases Duration of Unemployment

The increasing pace of technological change not only throws more people out of work but also contributes to the increasing duration of unemployment. This is true for a number of reasons. As skill demands change more rapidly, large numbers of people need to learn new skills, go back to school, or switch careers entirely. When a firm changes technology, it may permanently lay off workers with certain skills and hire new workers with different ones. This is true for workers at all levels. In recent years, middle managers have faced some of the largest numbers of layoffs.[22]

Some workers, particularly those who have the hardest time acquiring new skills, may be unable to take advantage of new job opportunities, and thus face long-term unemployment. More critically, even when a firm makes incremental changes in technology, it may not want to retrain some types of workers. For

***People who are unemployed remain unemployed for longer periods of time than in the past.***

example, many firms believe it is not cost-effective to retrain older or less-skilled workers, either because the retraining costs are higher or because firms believe workers may not be sufficiently productive or on the job long enough to recoup the cost of training. This employer strategy increases the share of the unemployed labor force made up of workers with relatively higher retraining costs. It also threatens these unemployed workers with a long job search or even permanent unemployment.

As a result of these changes, people who are unemployed remain unemployed for longer periods of time than in the past. For example, in the 1970s the average duration of unemployment for men was 13.1 weeks, while in the 1990s it was 17 weeks, an extra month of joblessness. The increase in unemployment is particularly dramatic for older workers: unemployed men aged 55 to 64 were unemployed an average of 19 weeks in the 1970s, 23.8 weeks in the 1980s, and 25.3 weeks in the 1990s. Even more disturbing, there has been a noticeable increase in the proportion of displaced workers who are unemployed an exceptionally long time. In 1998 for example, 14% of the unemployed were out of work 27 weeks or more, compared to only 9% in 1979 and less than 5% in 1969.[23]

**United States, Mean Duration of Unemployment, Period Averages**

| | 1970–79 | 1980–89 | 1990–98 |
|---|---|---|---|
| Men | | | |
| All men | 13.1 | 17.1 | 17.3 |
| 16–19 years | 8.3 | 9.3 | 9.7 |
| 20–24 years | 11.6 | 14.5 | 13.4 |
| 25–34 years | 14.0 | 18.2 | 17.1 |
| 35–44 years | 16.8 | 21.1 | 20.1 |
| 45–54 years | 18.0 | 22.7 | 24.0 |
| 55–64 years | 19.1 | 23.8 | 25.3 |
| Women | | | |
| All women | 10.5 | 12.4 | 14.4 |
| 16–19 years | 7.5 | 7.8 | 9.0 |
| 20–24 years | 9.5 | 10.8 | 11.3 |
| 25–34 years | 10.7 | 12.9 | 14.4 |
| 35–44 years | 12.1 | 14.7 | 17.0 |
| 45–54 years | 13.9 | 16.1 | 18.5 |
| 55–64 years | 16.5 | 17.8 | 20.7 |

Source: Baumol and Wolff (1998)
Figures for 1994–1998 updated by author.

## Growth in Small Firms Leads to Poorer Work Conditions

The growing proportion of employment in small firms has also contributed to increased employment turnover and insecurity. New business formation and the growth in small and medium sized businesses have been key factors in the economic vibrancy of the information technology industry and in California's economic recovery. From 1993 to 1997, large businesses lost 277,443 more jobs than they created, while firms with fewer than 100 employees created more than 1.3 million net new jobs in California. Firms with fewer than 20 workers accounted for 65% of this growth.[24]

***Employment in small firms is inherently more insecure than in large firms.***

Employment in small firms, however, is inherently more insecure than in large firms. The small business sector is significantly more vulnerable to failure, with many firms collapsing at the same time that others succeed. There are usually limited opportunities for career advancement within the business. While some small firms pay well, overall working conditions in the majority of small firms are worse than in large firms. In particular, small firms typically offer less, if any, health care benefits, pensions and other benefits than large firms. A recent national study[25] of employment in small business (less than 50 employees), for instance, found:

- Employees of large firms (1,000 or more employees) are better compensated than small business employees, earning on average 39% more.
- Workers at large firms receive better benefits than their counterparts at small firms: 68.7% of employees at large firms are covered by pension plans, compared to only 13.2% at small firms. Also, 78.4% of employees at large firms have health insurance, but only 30% of workers at small firms receive health insurance.
- Job security at large firms is also better, with job tenure averaging 8.5 years at large firms, but only 4.4 years at firms with fewer than 25 employees

*Older high-tech workers face more difficult employment prospects and a decline in their earnings.*

A recent survey of California residents also found that workers in smaller firms have less access to training and education programs. While 67% of employees in firms with more than 500 employees report having attended a jobs skills class in the last 5 years, only 53% of employees of firms with fewer than 50 employees reported having attended jobs skills training.[26]

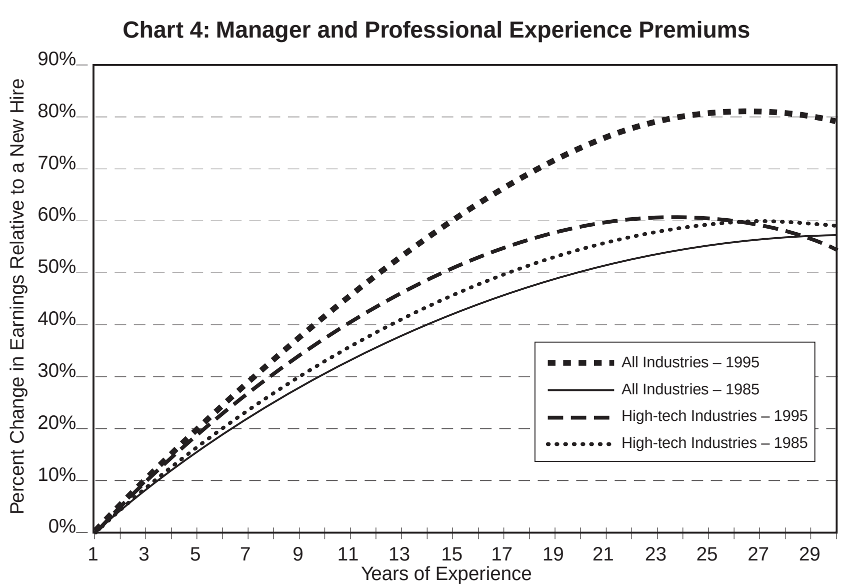
### Older Workers Face More Displacement

Older workers are particularly likely to suffer from insecure employment. In the context of rapid change, older workers often need more retraining and face more difficulties in finding new employment. High-tech industries tend to be dominated by younger workers, either those recently out of college or in their early years as a professional. Companies would rather hire younger workers with the latest university training than invest in retraining of their current, older workers, even if they are highly skilled workers with university educations. As a result, older high-tech workers face more difficult employment prospects and a decline in their earnings precisely when traditionally people have had the highest earning potential.

This trend was confirmed in research by University of California Professor Clair Brown and her colleagues.[27] They compared earnings growth based on experience ("the experience premium") for engineers and managers in high-tech industries and in the economy as a whole. As the chart below shows, earnings growth has stagnated for high-tech professionals and managers while growing substantially for engineers and managers in the economy as a whole. In the entire economy, a professional with 20 years of experience in 1985 earned 48% more than a professional with no experience, and by 1995 that differential had increased to 73%. In high-tech industries, a manager or professional with 20 years of experience earned 55% more than a newly hired employee in 1985 but only 59% more in 1995. Wages actually start to decline for engineers and managers with more than 24 years experience.

Why haven't the wages for older high-tech managers and professionals kept up with the rest of the economy? At least part of the reason is the growing number of graduate students in engineering, combined with companies' desire to hire personnel with the latest education. Companies have little incentive to train older engineers when they can hire staff from the large flow of newly-trained engineers, who are willing to work for lower salaries. Companies can save money on training as well, since the recent graduates already have cutting-edge knowledge. Thus, at a time in their careers when they may have expected the greatest earning potential, high-tech engineers face increasing insecurity in employment, accompanied by wage stagnation.

***The new jobs being created disproportionately include many that require few skills.***




Data: 1986 and 1996 Current Population Survey March Supplements
Courtesy of Clair Brown, et al, University of California, Berkeley

### 3.2 Divergent Trends in Job Characteristics

In the past five years, the growth in high-tech sectors has also stimulated growth in other sectors of California's economy. Yet many of the jobs created during this period are significantly different from the jobs that were lost during the recession of the early 1990s. While California lost large numbers of well-paid jobs in core manufacturing and defense-related industries; the new jobs being created disproportionately include many that require

***Employment has grown dramatically in services, including many low-paid jobs in temporary employment.***

few skills and are poorly paid, even though there are also new jobs in the middle and upper levels of the labor market. This is part of a national trend in the decline in manufacturing employment and the simultaneous growth of jobs in both the high and low ends of the service industries. As the following table shows, California's employment in manufacturing declined by over 300,000 between 1989 and 1993, an amount that was one and a half times the total job loss in the economy overall. Though there has been some expansion in manufacturing employment in recent years, employment remains significantly below the peak in 1989. On the other hand, employment has grown dramatically in services, including many low-paid jobs in temporary employment, business services, and retail trade.

**TABLE 1: CALIFORNIA ANNUAL AVERAGE LABOR FORCE AND INDUSTRY EMPLOYMENT**

| | EMPLOYMENT | | | JOB GROWTH | | ANNUAL PERCENT JOB GROWTH | | INDUSTRY SHARE OF JOB GROWTH (LOSS) |
|---|---|---|---|---|---|---|---|---|
| | 1989 | 1993 | 1998 | 1989-1993 | 1993-1998 | 1989-1993 | 1993-1998 | 1989-1998 |
| TOTAL FARM | 371,400 | 362,300 | 399,000 | -9,100 | 36,700 | -0.6% | 1.9% | 2.0% |
| TOTAL NONFARM | 12,238,500 | 12,045,300 | 13,584,100 | -193,200 | 1,538,800 | -0.4% | 2.4% | 98.0% |
| GOODS PRODUCING | 2,704,300 | 2,285,700 | 2,587,200 | -418,600 | 301,500 | -4.1% | 2.5% | -8.5% |
| MINING | 37,300 | 34,900 | 25,400 | -2,400 | -9,500 | -1.6% | -6.2% | -0.9% |
| CONSTRUCTION | 560,000 | 445,700 | 601,500 | -114,300 | 155,800 | -5.5% | 6.2% | 3.0% |
| MANUFACTURING | 2,107,000 | 1,805,100 | 1,960,300 | -301,900 | 155,200 | -3.8% | 1.7% | -10.7% |
| DURABLE GOODS | 1,405,900 | 1,110,000 | 1,230,900 | -295,900 | 120,900 | -5.7% | 2.1% | -12.7% |
| NONDURABLE GOODS | 701,100 | 695,200 | 729,400 | -5,900 | 34,200 | -0.2% | 1.0% | 2.1% |
| SERVICE PRODUCING | 9,534,200 | 9,759,700 | 10,996,900 | 225,500 | 1,237,200 | 0.6% | 2.4% | 106.5% |
| TRANSPORTATION & PUBLIC UTILITIES | 598,200 | 610,600 | 694,000 | 12,400 | 83,400 | 0.5% | 2.6% | 7.0% |
| WHOLESALE TRADE | 758,200 | 686,700 | 800,800 | -71,500 | 114,100 | -2.4% | 3.1% | 3.1% |
| RETAIL TRADE | 2,193,900 | 2,125,200 | 2,321,200 | -68,700 | 196,000 | -0.8% | 1.8% | 9.3% |
| FINANCE, INSURANCE & REAL ESTATE | 789,000 | 794,200 | 798,000 | 5,200 | 3,800 | 0.2% | 0.1% | 0.7% |
| SERVICES | 3,196,200 | 3,462,400 | 4,219,500 | 266,200 | 757,100 | 2.0% | 4.0% | 74.5% |
| BUSINESS SERVICES | 686,600 | 755,500 | 1,134,800 | 68,900 | 379,300 | 2.4% | 8.5% | 32.6% |
| HEALTH SERVICES | 727,400 | 825,400 | 901,000 | 98,000 | 75,600 | 3.2% | 1.8% | 12.6% |
| ENGINEERING & MGMT. SERV. | 365,400 | 383,400 | 439,800 | 18,000 | 56,400 | 1.2% | 2.8% | 5.4% |
| PRIVATE EDUCATIONAL SERVICES | 165,000 | 166,400 | 205,100 | 1,400 | 38,700 | 0.2% | 4.3% | 2.9% |
| AMUSEMENT & RECREATION SERV. | 144,000 | 163,400 | 197,700 | 19,400 | 34,300 | 3.2% | 3.9% | 3.9% |
| MOTION PICTURES | 111,700 | 130,700 | 185,900 | 19,000 | 55,200 | 4.0% | 7.3% | 5.4% |
| ALL OTHER SERVICES | 996,100 | 1,037,600 | 1,155,200 | 41,500 | 117,600 | 1.0% | 2.2% | 11.6% |
| GOVERNMENT | 1,998,700 | 2,080,600 | 2,163,600 | 81,900 | 83,000 | 1.0% | 0.8% | 12.0% |
| TOTAL, ALL INDUSTRIES | 12,610,000 | 12,407,600 | 13,983,100 | -202,400 | 1,575,500 | -0.4% | 2.4% | 100.0% |

DATA: CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT, LABOR MARKET INFORMATION DIVISION, LABOR FORCE AND INDUSTRY EMPLOYMENT

The following table shows the 15 major industries with the top employment growth between 1993 and 1998 in California. Together these 15 industries accounted for nearly 84% of all employment growth during that time. As might be expected, the list includes major high-tech industries, such as electronic equipment manufacturing, engineering and management services, and industrial machinery manufacturing (a category that is dominated by the computer industry).

***Within business services, the greatest growth has occurred in the temporary help sector.***

**TABLE 2 : TOP 15 INDUSTRIES WITH GREATEST JOB GROWTH, 1993 –1998**

| SIC CODE | EMPLOYMENT SECTOR | TOTAL EMPLOYMENT 1993 | TOTAL EMPLOYMENT 1998 | CHANGE 1993-98 NUMBER | CHANGE 1993-98 % | AVERAGE 1997 ANNUAL PAYROLL* |
|---|---|---|---|---|---|---|
| 73 | BUSINESS SERVICES | 755,500 | 1,134,800 | 379,300 | 50% | $33,353 |
| | TEMPORARY HELP INDUSTRY | 238,600 | 421,500 | 182,900 | 77% | $19,407 |
| | COMPUTER AND DATA PROCESSING SERVICES | 125,200 | 239,400 | 114,200 | 91% | $68,634 |
| | ALL OTHER BUSINESS SERVICES | 391,700 | 473,900 | 82,200 | 21% | $25,695 |
| 17 | CONSTRUCTION—SPECIAL TRADES | 280,500 | 393,400 | 112,900 | 40% | $33,584 |
| | LOCAL EDUCATION | 738,600 | 844,400 | 105,800 | 14% | $32,742 (1) |
| 58 | EATING & DRINKING PLACES | 784,900 | 871,800 | 86,900 | 11% | $11,545 |
| 50 | WHOLESALE TRADE—DURABLE GOODS' | 395,100 | 476,400 | 81,300 | 21% | $42,975 |
| 80 | HEALTH SERVICES | 825,400 | 901,000 | 75,600 | 9% | $34,074 |
| 87 | ENGINEERING & MANAGEMENT SERVICES | 383,400 | 439,800 | 56,400 | 15% | $50,077 |
| 78 | MOTION PICTURES | 130,700 | 185,900 | 55,200 | 42% | $48,984 |
| 36 | ELECTRONIC EQUIPMENT MANUFACTURING | 214,000 | 268,700 | 54,700 | 26% | $52,333 |
| 83 | SOCIAL SERVICES | 208,800 | 258,900 | 50,100 | 24% | $17,327 |
| 45 | AIR TRANSPORTATION | 93,400 | 134,600 | 41,200 | 44% | $36,414 |
| 82 | PRIVATE EDUCATIONAL SERVICES | 166,400 | 205,100 | 38,700 | 23% | $22,907 |
| 35 | INDUSTRIAL MACHINERY MANUFACTURING | 194,400 | 232,900 | 38,500 | 20% | $61,447 |
| 79 | AMUSEMENT & RECREATION SERV. | 163,400 | 197,700 | 34,300 | 21% | $28,487 |
| 07** | FARM SERVICES | 140,100 | 173,900 | 33,800 | 24% | $25,048 |
| | TOTAL TOP 15 EMPLOYMENT SECTORS | 5,474,600 | 6,719,300 | 1,244,700 | 23% | $33,117 |
| | TOTAL, ALL SECTORS | 12,407,600 | 13,983,100 | 1,575,500 | 13% | $32,799 |

* BASED ON THIRD QUARTER 1997 PAYROLL AND EMPLOYMENT
** INCLUDES FORESTRY AND FISHING EMPLOYMENT
(1) AVERAGE PAYROLL FOR ALL PUBLIC SECTOR EMPLOYMENT
DATA: CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT, LABOR MARKET INFORMATION DIVISION, LABOR FORCE AND INDUSTRY EMPLOYMENT

The single largest category, however, is business services. Within business services, the greatest growth has occurred in the temporary help sector, which accounted for 35% of business service expansion. These firms provide trained "temp" workers to businesses at relatively low wages with few benefits.

Alongside the growth in high-tech employment and business services, however, there has been tremendous growth in low-wage service occupations. Taken together, several predominately low-wage service industries—including 'other business services'

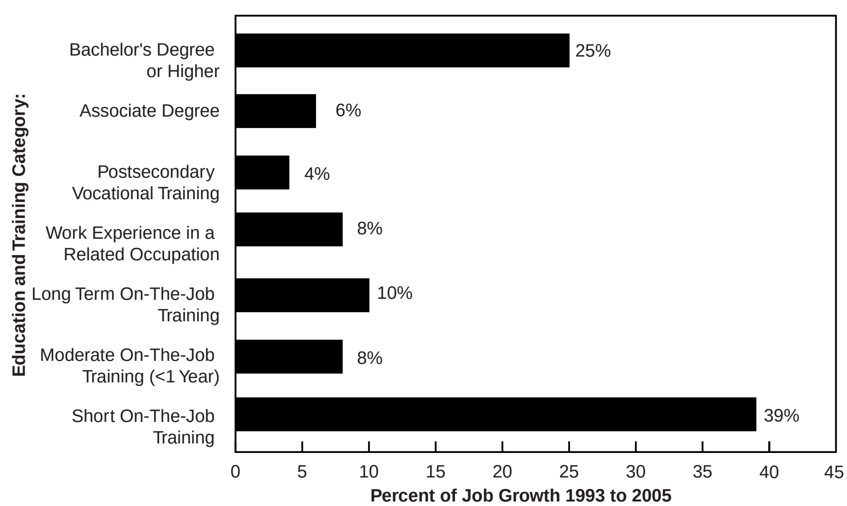
***Nearly 40% of projected new jobs will require, at most, a high school diploma.***

(predominantly janitorial and security services), eating and drinking places, social services, private education services, amusement and recreation services, and farm services—accounted for 326,000 net new jobs between 1993 and 1998, or 21% of all new jobs.

## Occupational Projections Show Significant Low-Wage Job Growth

The divergent trends in job creation reflect dramatically different needs for education of the workforce. In an analysis of data from the Bureau of Labor Statistics and the California Economic Development Department (EDD), the California Budget Project estimates that nearly 40% of projected new jobs between 1993 and 2005 will be in occupations that will require, at most, a high school diploma with relatively brief on-the-job training. Another 31% of projected new jobs will require a college degree, reflecting the simultaneous growth at both the top and bottom of the labor force.[28]

**Chart 5: Percent of Projected Job Growth By Education And Training Requirements**




Source: California Budget Project analysis of data from California Employment Development Department and U.S. Department of Labor

The EDD's projections, which span the period from 1996 to 2006, suggest that there will be 3.1 million new jobs created in California. However, three of the top four categories—accounting for nearly 8% of all job growth—are in service sector jobs requiring limited skills and paying low wages. A full 10 out of the top 20 occupations with the greatest job growth have a median wage below $10 an hour.

***A full 10 out of the top 20 occupations with the greatest job growth have a median wage below $10 an hour.***

**California Occupations with the Largest Projected Numerical Growth, 1996–2006**

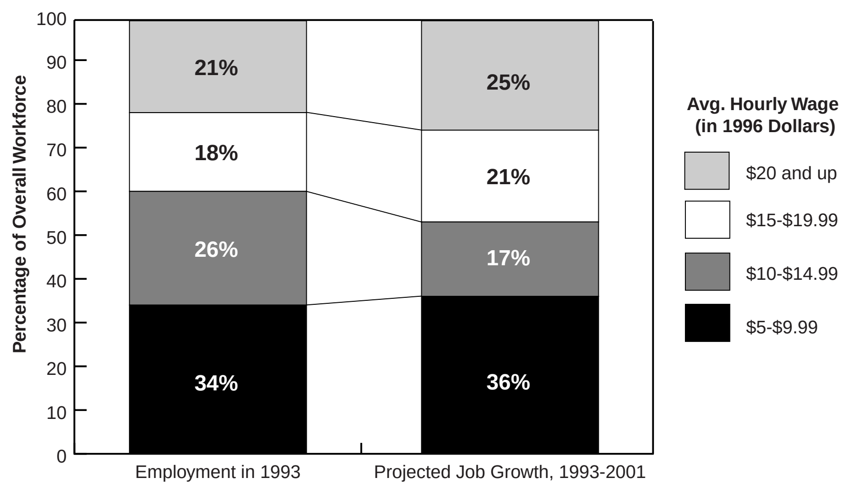
| Occupation | Annual 1996 | Average 2006 | Absolute Change | Percent Change | Median Wage (1997) |
|---|---|---|---|---|---|
| Cashiers | 302,190 | 390,210 | 88,020 | 29.1% | $ 6.87 |
| General Managers, Top Executives | 361,510 | 445,640 | 84,130 | 23.3% | $33.52 |
| Salespersons, Retail | 421,550 | 502,210 | 80,660 | 19.1% | $ 7.56 |
| Guards and Watch Guards | 124,490 | 190,860 | 66,370 | 53.3% | $ 7.54 |
| Receptionists, Information Clerks | 146,800 | 204,610 | 57,810 | 39.4% | $ 9.58 |
| Teachers Aides, Paraprofessional | 100,750 | 153,580 | 52,830 | 52.4% | $ 9.48 |
| General Office Clerks | 348,060 | 394,670 | 46,610 | 13.4% | $10.07 |
| Systems Analysts—Elec. Data Proc. | 42,360 | 85,430 | 43,070 | 101.7% | $25.69 |
| Truck Drivers, Light | 119,310 | 159,590 | 40,280 | 33.8% | $ 9.78 |
| Registered Nurses | 182,450 | 221,920 | 39,470 | 21.6% | $22.80 |
| Waiters and Waitresses | 189,260 | 228,640 | 39,380 | 20.8% | $ 5.61 |
| Food Preparation Workers | 130,290 | 168,560 | 38,270 | 29.4% | $ 6.50 |
| Hand Packers and Packagers | 98,570 | 133,280 | 34,710 | 35.2% | $ 6.81 |
| Combined Food Prep and Service | 134,740 | 169,060 | 34,320 | 25.5% | $ 5.71 |
| Maint. Repairers, Gen. Utility | 122,520 | 156,430 | 33,910 | 27.7% | $11.29 |
| Teachers—Secondary School | 106,800 | 140,460 | 33,660 | 31.5% | N/A |
| Computer Engineers | 30,930 | 64,180 | 33,250 | 107.5% | $29.05 |
| Adjustment Clerks | 49,250 | 80,760 | 31,510 | 64.0% | $11.67 |
| Sales Reps, Non-Scientific, Exc Retail | 134,600 | 163,670 | 29,070 | 21.6% | $17.69 |
| Engineer, Math and Nat. Sci Mgrs. | 50,840 | 79,780 | 28,940 | 56.9% | $39.72 |
| **Total** | **12,743,400** | **15,872,800** | **3,129,400** | **24.6%** | |

Data: California Employment Development Department, Occupational Projections 1996–2006 Data: California Employment Development Department, Occupational Projections

Divergent trends in the quality of future jobs are also demonstrated through estimates of job growth by average hourly wage within differing occupations. The California Employment Development Department expects a disproportionate growth in occupations that paid less than $10 an hour in 1996. These jobs account for an estimated 36% of projected new jobs by the year 2001. Jobs in occupations that pay on average between $10 and $15 an hour are shrinking as a portion of the workforce, while occupations that pay above that amount are also seeing disproportionate growth.

***Wages have stagnated for the majority of the population, and inequality is growing.***

**Chart 6: Distribution of Employment and Projected Job Growth, 1993-2001, By Average Hourly Wage in Occupation**




Data: California Employment Development Department, *Occupational Projections 1993-2005 and Occupational Employment Statistics*

## 3.3 Stagnating Wages and Growing Income Inequality

In the midst of growing insecurity and structural inequality, wages have stagnated for the majority of the population, and inequality is growing. These wage trends intensify working families' vulnerability to economic dislocation.

### Median Wages Decline

The typical (median) wage paid to California workers in 1998 was $11.96 an hour. Despite five solid years of economic growth, this figure is still 1% lower than it was in 1993. Male workers saw an even greater decline. The typical wage paid to men in California declined from $13.53 in 1993 to $12.91 in 1998.29  The median wage for female workers remained significantly below that of male workers and remained unchanged, despite rapid economic growth.

**Change in Median Hourly Wage, California Workers, 1993-1998**

| Workforce | 1993 | 1998 | Percent Change |
|---|---|---|---|
| All Workers | $12.14 | $11.96 | -1% |
| Male Workers | $13.53 | $12.91 | -5% |
| Female Workers | $11.08 | $11.09 | 0% |

Data: Current Population Survey-ORG File

*Most workers have experienced declining wages over the past five years.*

## Wages Decline Across the labor market

Most workers, at nearly all levels of the labor market, have experienced declining wages over the past five years, in some cases quite dramatically, despite the long economic growth cycle of the 1990s. Despite some growth in 1998 for those at the bottom of the income distribution (attributable to declining unemployment and increases in the statutory minimum wage from $4.25 in 1993 to $5.75 in 1997), real wages remain below their pre-recession levels. Moreover, the wage paid a male worker at the fortieth percentile declined over 5% between 1993 and 1998. Overall, in the past five years, only wages in the upper half of the labor market have grown, but even then very slightly for male workers. At the eightieth percentile, for example, wages for women grew by 6.4% but only 1% for men.

**Hourly Wages by percentile**
**California, 1993-1998**

| | 1993 | 1998 | Percent Change |
|---|---|---|---|
| All Workers | | | |
| 80th | $ 20.71 | $ 21.38 | 3.2% |
| 60th | $ 14.40 | $ 14.63 | 1.6% |
| 40th | $ 10.34 | $ 9.98 | -3.5% |
| 20th | $ 6.89 | $ 6.89 | 0.0% |
| Men | | | |
| 80th | $ 22.99 | $ 23.22 | 1.0% |
| 60th | $ 16.29 | $ 15.76 | -3.2% |
| 40th | $ 11.08 | $ 10.51 | -5.1% |
| 20th | $ 7.29 | $ 7.13 | -2.1% |
| Women | | | |
| 80th | $ 17.79 | $ 18.94 | 6.4% |
| 60th | $ 13.06 | $ 13.13 | 0.5% |
| 40th | $ 9.52 | $ 9.35 | -1.8% |
| 20th | $ 6.68 | $ 6.59 | -1.3% |

Data: Current Population Survey-ORG File

*Workers at the bottom end of the labor market have lost nearly one fifth of their hourly earnings.*

The wage declines in the past five years are not a new trend. The long-term trends are even more disturbing, especially for those at the lower end of the labor market. Wages at the thirtieth percentile, for instance, were 9% lower in 1998 than in 1989 and nearly 18% lower than in 1979 when adjusted for inflation. In the space of 20 years, workers at the bottom end of the labor market have lost nearly one fifth of their hourly earnings, a historically unprecedented decline during a period of economic growth.

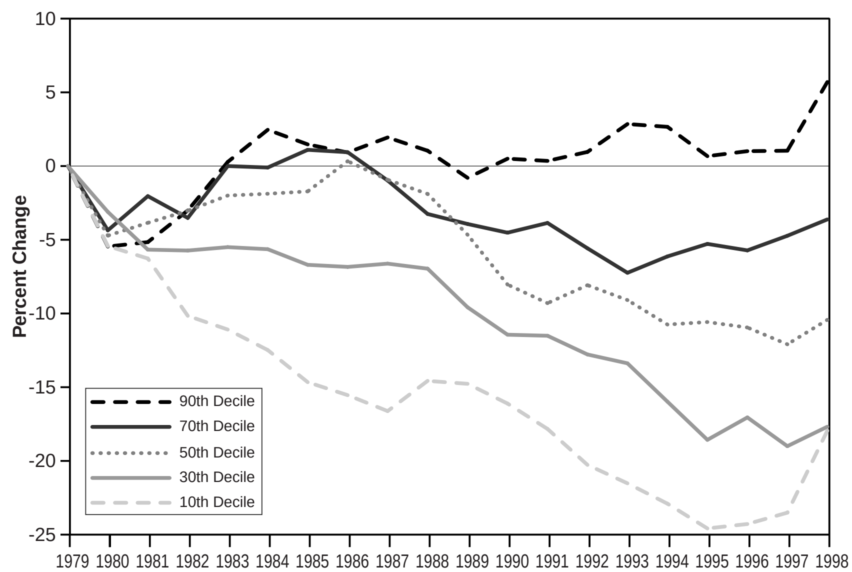


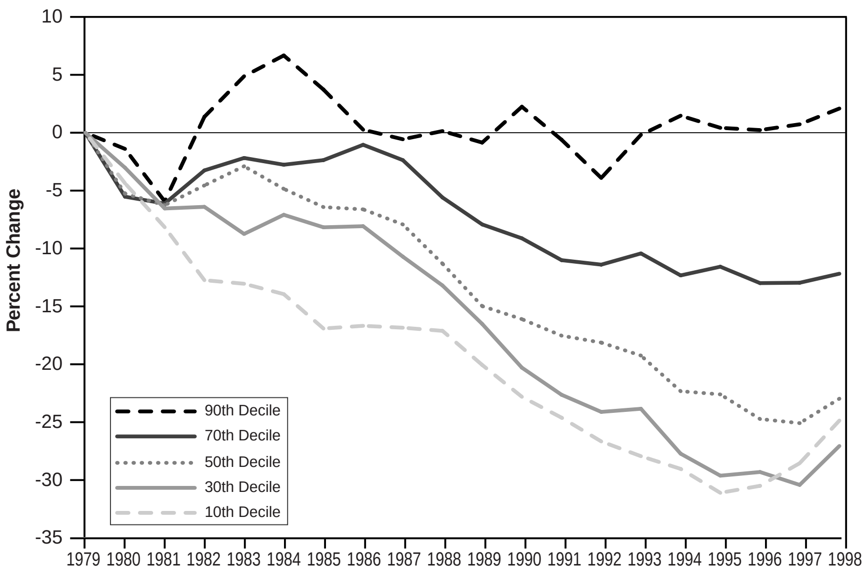

**Chart 7: Cumulative Percentage Change in Hourly Wage By Percentile 1979-1998 All Workers**

Data: Current Population Survey, Out-Going Rotation Group File

Despite the wage decline across most of the labor market, the trends for men and women have been different. Women continue to earn significantly less than their male counterparts. The median wage for women in 1998 was $11.09, compared to $12.91 for men. However, wages for women at the upper end of the labor market have increased sharply—up a full 28% since 1979 for women at the ninetieth percentile—while the wages for men at the ninetieth percentile have remained stagnant. As Chart 8 illustrates, since 1979 only men in the top 10% of earners have received wage increases. The real wages for at least 80% of working men are now less than what their counterparts earned 20 years ago. Women workers have fared somewhat better, with their median wage in 1998 remaining roughly the same as it was in 1979. However, by contrast with sizeable gains for women at the top of the salary scale, the wages of the lowest-paid women workers have declined by 15% over this period.

***The real wages for at least 80% of working men are now less than what their counterparts earned 20 years ago.***

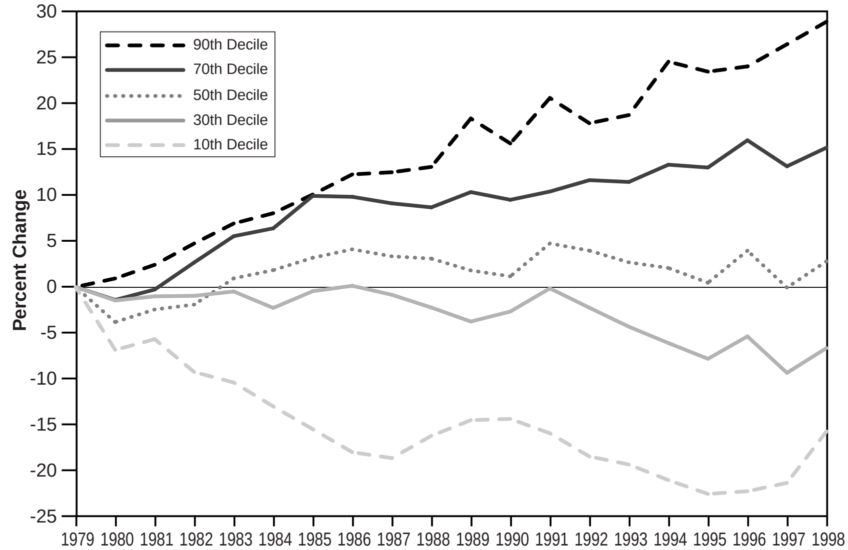
**Chart 8: Cumulative Percentage Change in Male Hourly Wages By Percentile 1979-1998**




Data: Current Population Survey, Out-Going Rotation Group File

***Because of these declining wages, many Californians face increasing difficulties providing for their households.***

**Chart 9: Cumulative Percentage Change in Female Hourly Wages By Percentile 1979-1998**




Data: Current Population Survey, Out-Going Rotation Group File

Because of these declining wages, many Californians face increasing difficulties providing for their households. A recent poll by UCSF and the Field Institute found that over half of California residents say that it is at least somewhat difficult to live on their household's income and 16% say that it is difficult, very difficult, or extremely difficult to do so. More troubling, about 14% of the state's residents report that it is either very or somewhat likely that in the next two months they and their families will experience actual hardships, such as inadequate housing, food, or medical care. And 6% say it is very likely that they and their family will have to reduce their standard of living to the bare necessities of life in the next two months.[30]

### Why Declining Wages?

How is it possible to have continually declining wages and growing inequality in the midst of our state's recent economic growth? There is no easy answer, since many forces are at work. Two factors that have received the most attention in California recently are changing skill demands, and immigration, both of which are examined below. It is important to note, however, that these two factors combined still account for less than half of the growth in inequality in the last 20 years. Employment insecurity and the rise in contingent employment also play a significant role, since workers who are insecure in their current employment are less likely to demand higher wages. Other contributing factors include increasing global trade, declining unionization rates, rising employment levels in low-paid service sectors, and declining value of the minimum wage. All of these latter factors constitute longer-term structural changes in the economy, and in many ways, they are integrally linked with the character of recent economic growth.

***Workers who are insecure in their current employment are less likely to demand higher wages.***

### Education and Wages

Clearly changing returns to education has been a significant factor in increasing inequality. Returns to education measure the differential in earnings between more- and less-educated workers, and there is clear evidence that lower-educated workers are receiving significantly lower wages now than in the past. In the last five years of economic expansion, for example, the average hourly wage for California workers with a college degree rose by 2.5%, while the average wage for California workers with less than a high school education declined by 3.3%. This trend is particularly evident over the long-term. The average wage of workers without a high school education declined by a full 34% between 1979 and 1997, before recovering slightly in 1998.

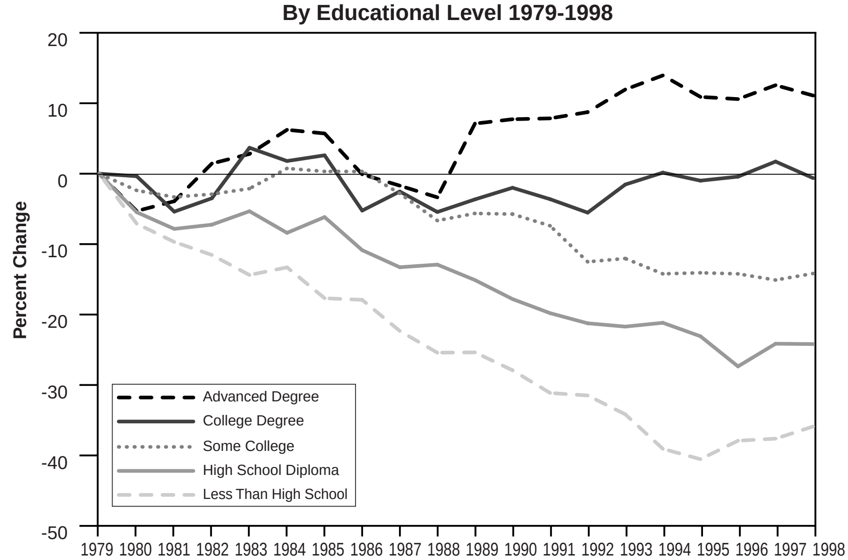
It is important to note, however, that the growth in inequality related to education is occurring primarily because of declining wages for those with lower education levels, *not* primarily because of raising wages for those with higher education levels. In fact, wage levels for workers with higher education levels have seen surprisingly little increase. The average wage for men with a college degree in 1998, for example, was actually slightly less when adjusted for inflation than the equivalent wage in 1979. Only 30% of California's workers currently have a college degree or higher. Wages for the majority of the California workforce who only have some college education or less have remained stagnant or declined over the last 20 years.

**Average Hourly Wage by Education Level, California, 1993–1998**

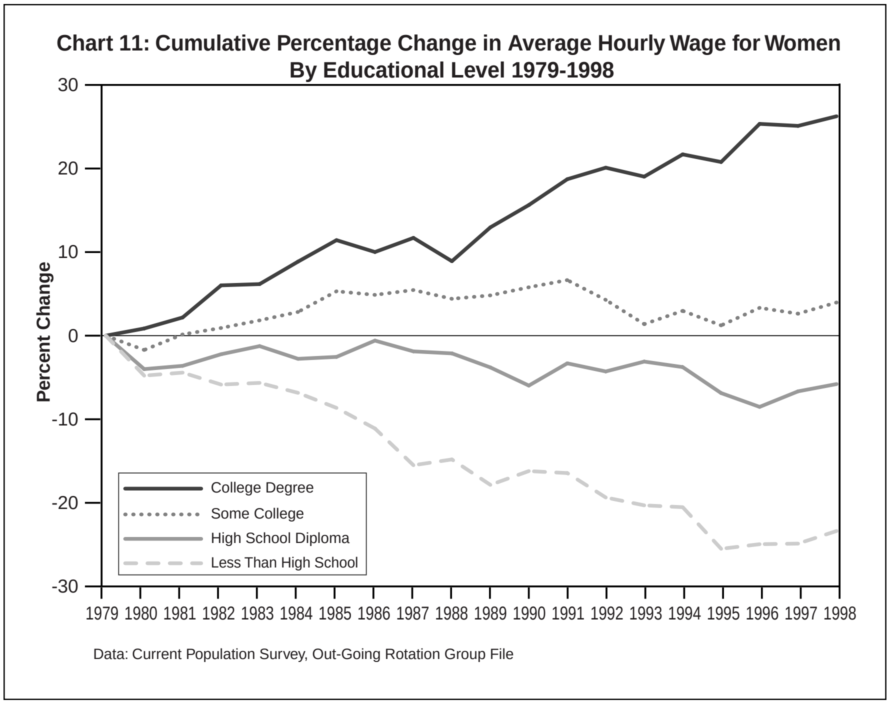
| | 1993 | 1998 | Percent Change |
|---|---|---|---|
| All | | | |
| Advanced Degree | $ 27.36 | $ 27.55 | 0.7% |
| College | $ 20.26 | $ 20.76 | 2.5% |
| Some College | $ 14.09 | $ 14.09 | 0.0% |
| High School | $ 12.22 | $ 11.91 | -2.6% |
| Less Than High School | $ 8.55 | $ 8.25 | -3.3% |
| Men | | | |
| Advanced Degree | $ 29.65 | $ 29.42 | 0.8% |
| College | $ 22.76 | $ 22.97 | 0.9% |
| Some College | $ 15.75 | $ 15.37 | -2.4% |
| High School | $ 13.33 | $ 12.91 | -3.2% |
| Less Than High School | $ 9.17 | $ 8.93 | -3.0% |
| Women | | | |
| Advanced Degree | $ 23.31 | $ 24.35 | 4.5% |
| College | $ 17.44 | $ 18.50 | 6.1% |
| Some College | $ 12.45 | $ 12.77 | 2.6% |
| High School | $ 11.02 | $ 10.71 | -2.8% |
| Less Than High School | $ 7.34 | $ 7.06 | -3.9% |

Data Source: Current Population Survey

**Chart 10: Cumulative Percentage Change in Average Hourly Wage for Men By Educational Level 1979-1998**




Data: Current Population Survey, Out-Going Rotation Group File




***Declining unionization contributes to this growing inequality.***

What explains this decline in wages for less educated workers? Again, there are many factors. Technological change has reduced the demand for workers whose jobs can be replaced by technology and automation. Increasing international trade has resulted in a decline in pay for less-skilled workers in sectors vulnerable to imports. In the past, unionization rates were higher for people with lower schooling levels, so declining unionization contributes to this growing inequality as well (this is explored in more detail below).

The decline in wages for workers with less than a college education particularly harms the state's African-American and Latino population, as well as some groups of Asian descent who have below-average years of education. For example, only 5% of the state's adult population of Latino origin had a college degree in 1990, while over 50% had never completed high school. Only 15 of the adult African-American population had a college degree, compared to 24%. These educational differences are manifested in the disparate wages among ethnic groups. In 1998, the average hourly wage in California was $14.37 for African-Americans and $10.68 for Latinos, but it was $17.56 for white workers.

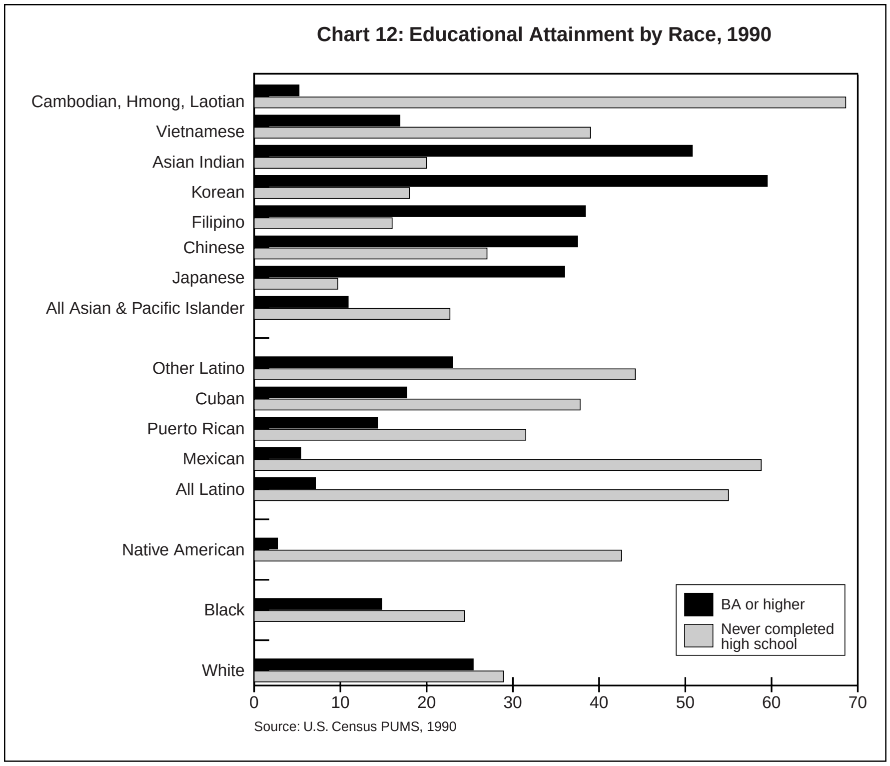


Chart 12: Educational Attainment by Race, 1990
Cambodian, Hmong, Laotian
Vietnamese
Asian Indian
Korean
Filipino
Chinese
Japanese
All Asian & Pacific Islander
Other Latino
Cuban
Puerto Rican
Mexican
All Latino
Native American
Black
White
BA or higher
Never completed high school
0
10
20
30
40
50
60
70
Source: U.S. Census PUMS, 1990

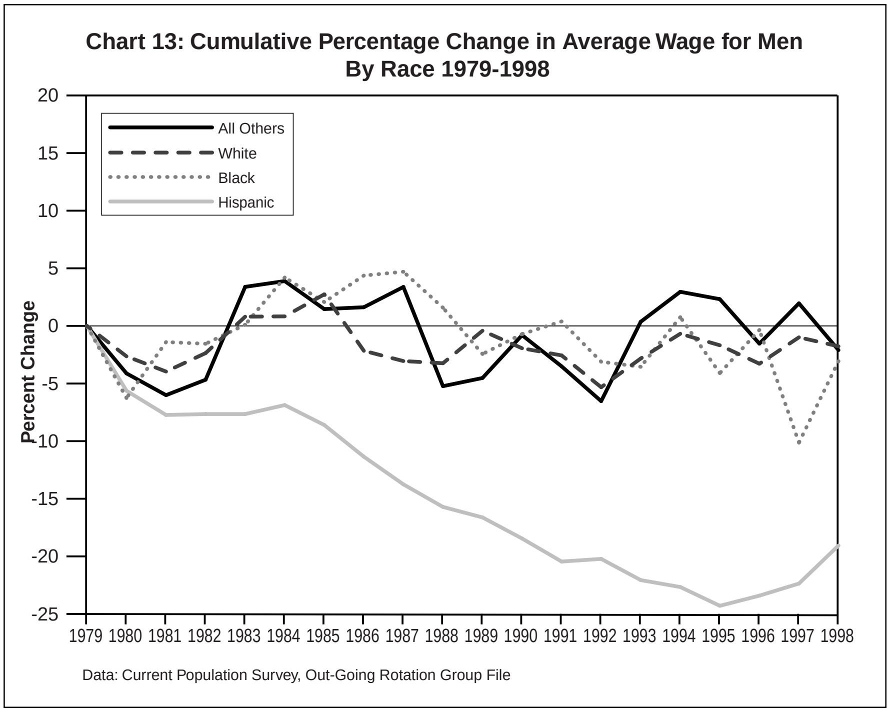


Chart 13: Cumulative Percentage Change in Average Wage for Men
By Race 1979-1998
All Others
White
Black
Hispanic
Percent Change
20
15
10
5
0
-5
-10
-15
-20
-25
1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998
Data: Current Population Survey, Out-Going Rotation Group File

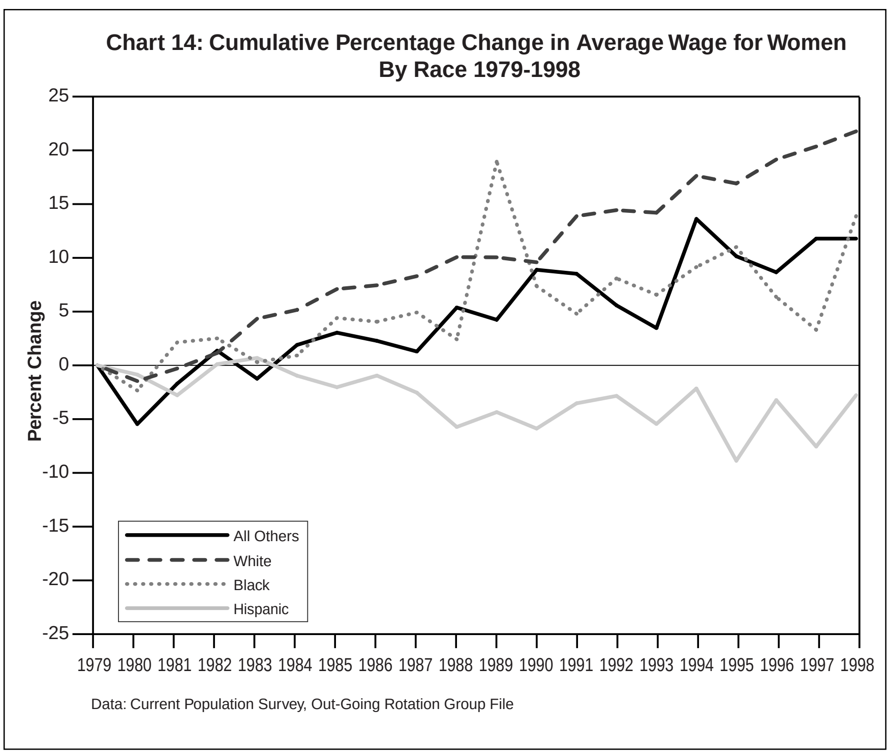


Chart 14: Cumulative Percentage Change in Average Wage for Women
By Race 1979-1998
Percent Change
25
20
15
10
5
0
-5
-10
-15
-20
-25
All Others
White
Black
Hispanic
1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998
Data: Current Population Survey, Out-Going Rotation Group File

***While immigration is often cited as a cause of growing inequality in California, the evidence is somewhat ambiguous.***

## Immigration and Wages

While immigration is often cited as a cause of growing inequality in California, the evidence is somewhat ambiguous. In the most comprehensive recent study[31] of the factors contributing to growing inequality, the Public Policy Institute of California (PPIC) found that immigration was a significant source of growing inequality, depending on which measures of inequality they used and what years were compared. For instance, in looking at the rise in inequality as measured by the ratio of wages at the seventy-fifth and twenty-fifth percentiles, immigration appeared responsible for between 22% and 29% of the growth in inequality, depending on the assumptions used. However, if inequality is measured by the ratio of wages at the ninetieth and tenth percentiles (a measure of the more extreme inequality between the very top and bottom of the income distribution), immigration actually decreased inequality in one PPIC scenario by as much as 16%.[32] While this finding doesn't contradict their conclusion that immigration is an important factor, it does suggest some caution in assessing how significant a factor it is.

More importantly, however, the PPIC study didn't significantly address the extent to which declining wages are associated with the challenges confronting new immigrants or with the poor treatment and discrimination that new immigrants often face. California has always been a state of immigrants, and since the time of the Gold Rush there have been only a few years when the number of people who were newly arriving did not exceed the number of those born within the state. For much of California's history, most immigrants came from other states of the union and were of European origin. Since the 1970s, and particularly during the 1980s, international immigration—particularly from Asia, Mexico and Central America—has out-paced immigration from other states. Today one in five Californians was born in a foreign nation. This influx has transfigured California's population and cities. Minority groups are expected to make up a majority of the state's population early in the next century, and at least six counties (Alameda, Fresno, Imperial, Los Angeles, Monterey and San Francisco) already have a majority of residents who are not of European-American ethnicity.[33]

Continued immigration into California is an inevitable and positive component of our rapidly globalizing economy. The ethnic and cultural diversity associated with immigration provides one of the strengths of the state's workforce and contributes in important ways to California's growing international trade and commerce. However, the fact that new immigrants are disproportionately concentrated in the lower half of the income distribution raises important questions about the obstacles to opportunity encountered by these new arrivals. It also presents problems for efforts to create a more cohesive and egalitarian statewide community.

***Education and immigration combined were only associated with 44% of the growth in inequality.***

Even though immigration seems to play some role in California's increasing inequality, PPIC's own data shows that it is not a complete explanation. In fact, education and immigration **combined** were only associated with 44% of the growth in inequality in California between 1967 and 1997 as measured by the ratio of earnings by workers in the seventy-fifth percentile to the earnings of those in the twenty-fifth percentile (or 24% of the growth in inequality if the incomes of those in the ninetieth percentile are compared with those in the tenth percentile). This still leaves the largest portion of inequality unexplained. The PPIC study did not look at any institutional factors shaping inequality, such as the erosion of the real value of the minimum wage, declining unionization, or the changing structure of corporations and employment relations associated with California's new economy. Our study does not attempt to make any quantitative estimate of the contribution to declining wages and growing income inequality derived from these variables, but it does suggest that they are important factors that deserve further study.

### What Difference Does a Union Make?

In some sectors unions have been able to slow, if not entirely reverse, the decline of real wages for their members. The ability of unions to raise wages depends largely on their level of representation in the relevant labor market, which can be local, national or global and can cover either an industry, a sector or a skill. As the proportion of unionized workers in any labor market segment declines, the wages of their members decline, though their wages remain higher than those of their non-union counterparts.

***Union membership has a clear impact on wage trends.***

Overall, a slightly larger share of workers in California belong to unions than in the United States as a whole. In 1997[34], 16.0% of workers in California were union members, compared to 14.1% of all U.S. workers. There is a large difference, however, between the public and private sectors. In California, nearly 50% of all government employees were union members in 1997, and the share has risen significantly since the 1980s. During the same year, in the nation as a whole, 37.2% of all government employees were union members. In California's private sector, however, only 10.0% of all workers were union members in 1996, compared to 9.7% of private sector workers nationally.

Union membership has a clear impact on wage trends. Since 1985 the average wage[35] for union members has declined by only 3%, compared to a decline of 6% for non-union workers. Most of this decline occurred in the private sector, where union density is the lowest. The average union wage in the private sector has declined nearly 10% in real terms since 1985  In the public sector, however, the average wage of union members has risen nearly 5% since 1985, while the wages of non-union public sector workers has remained essentially flat.

Union workers continue to receive significantly higher wages than their non-union counterparts. In 1997, the average hourly wage in California for all unionized workers in the private sector was $16.80, a full 20% higher than the average wage for non-unionized workers of $13.93 an hour. In the public sector, the average wage for union workers was $19.21, nearly 23% higher than the non-union average wage of $15.67  This union wage premium is true throughout the state's regions.

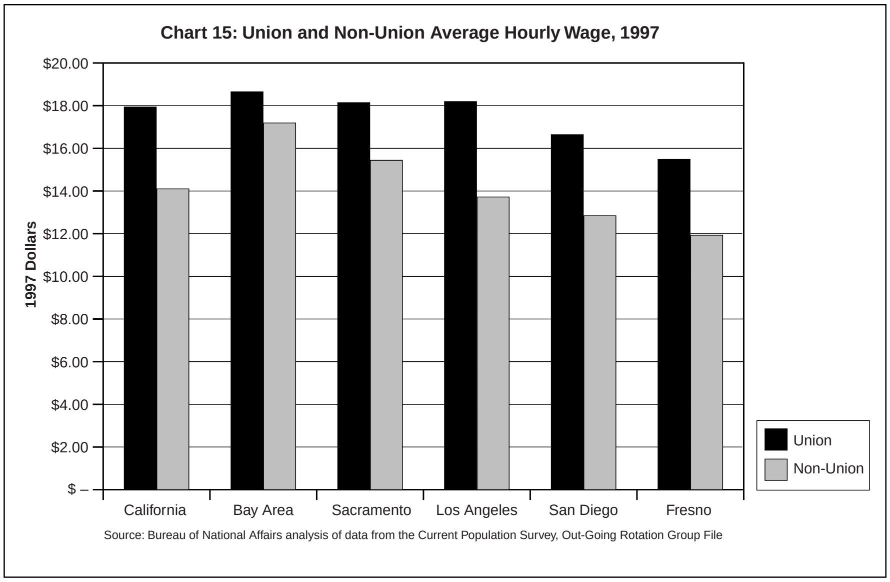


Chart 15: Union and Non-Union Average Hourly Wage, 1997
1997 Dollars
$20.00
$18.00
$16.00
$14.00
$12.00
$10.00
$8.00
$6.00
$4.00
$2.00
$ –
California
Bay Area
Sacramento
Los Angeles
San Diego
Fresno
Union
Non-Union
Source: Bureau of National Affairs analysis of data from the Current Population Survey, Out-Going Rotation Group File

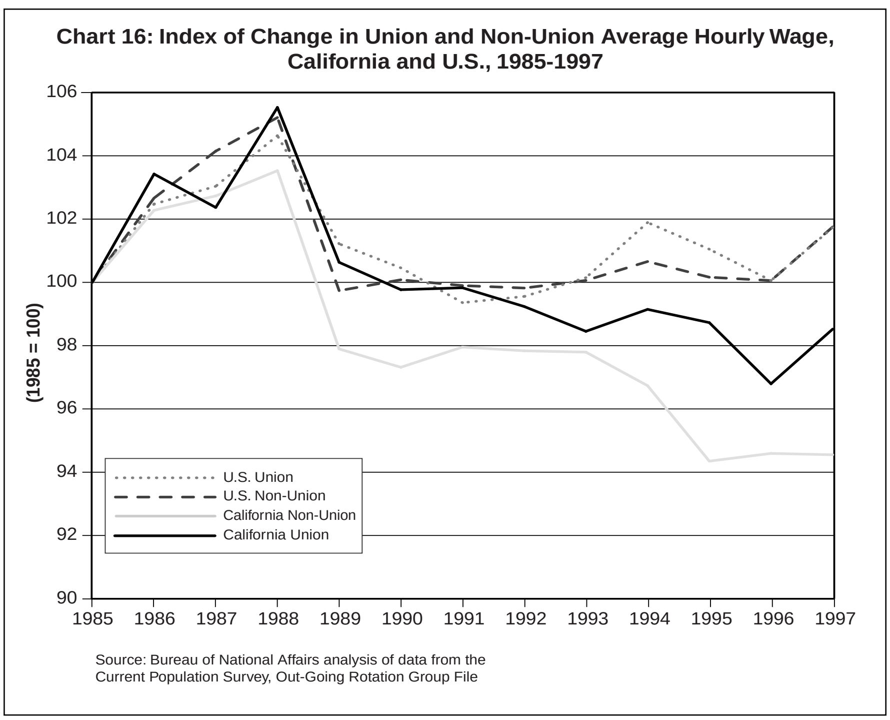


Chart 16: Index of Change in Union and Non-Union Average Hourly Wage, California and U.S., 1985-1997
(1985 = 100)
106
104
102
100
98
96
94
92
90
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
U.S. Union
U.S. Non-Union
California Non-Union
California Union
Source: Bureau of National Affairs analysis of data from the Current Population Survey, Out-Going Rotation Group File

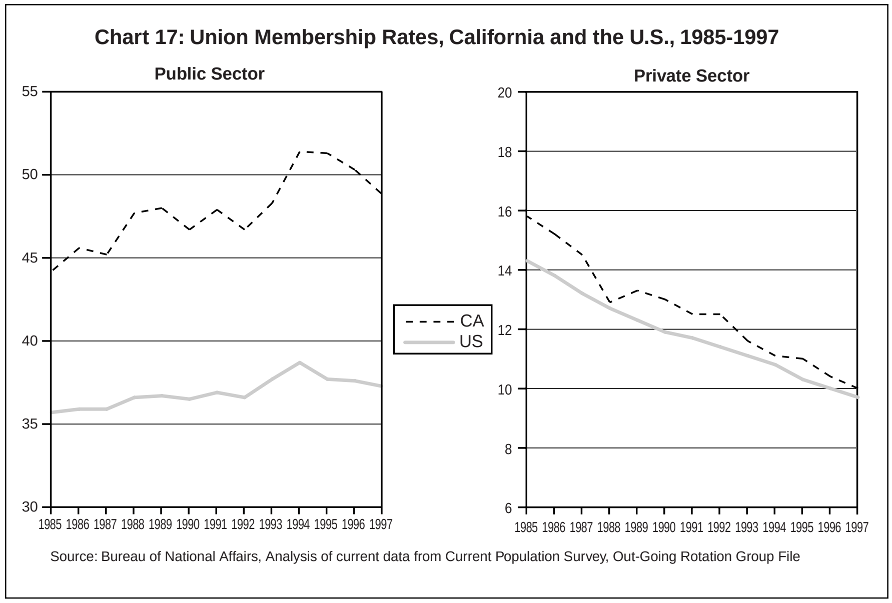


Chart 17: Union Membership Rates, California and the U.S., 1985-1997
Public Sector
Private Sector
55
50
45
40
35
30
20
18
16
14
12
10
8
6
CA
US
1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997
1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997
Source: Bureau of National Affairs, Analysis of current data from Current Population Survey, Out-Going Rotation Group File

# 4. The Social Contract and Its Demise

Work hasn't always been characterized by insecurity, volatility and declining wages. From the late 1940s to the early 1970s, this country experienced a period of remarkable economic stability, accompanied by broadly rising wages and improved standards of living for the vast majority of Americans. These "wonder years" of the America economy, however, did not rise simply from the workings of the market. Instead, they were made possible by a set of national policies that constituted a broad social contract.

***These "wonder years" were made possible by a set of national policies that constituted a broad social contract.***

The Great Depression spurred the nation's shift away from laissez-faire social and economic policies. The prolonged period of stagnant demand and corporate losses in the 1930s fed a vicious cycle, with massive layoffs and wage cuts further decreasing demand and pushing the entire economy into a deep decline. While popular movements for social justice provided much of the impetus for New Deal reforms, there was also a recognition that raising wages through collective bargaining or providing income to the aged or needy helped to boost consumer demand and stimulate the economy. Some of the key New Deal labor and social welfare reforms, which in their aggregate constituted a social contract, included:

- The National Labor Relations Act of 1935 protected workers' right to organize and bargain collectively. This contributed to the rise of labor unions in nearly all of the mass-production manufacturing industries that were the core of the U.S. economy. Many post-war union contracts tended to link annual wage increases with the era's roughly 3% annual growth in productivity and included cost of living adjustments to protect real earnings from erosion by inflation. Linking wages and productivity increases for the unionized workforce, which reached a peak of 35% of the working population in 1945, also helped non-unionized workers, since their employers strove to match union pay scales in an effort to forestall unionization and to compete for skilled workers.
- The Fair Labor Standards Act of 1938 established national standards for the minimum wage, overtime pay, and restrictions on child labor. Over the next thirty years, until 1968, periodic increases kept the national minimum wage rising

roughly in line with productivity increases, ensuring that workers in many low-wage, nonunion industries also shared the benefits of productivity growth.

- The Social Security Act of 1935 not only created our current social security system but also established a federal unemployment insurance tax and incentives to ensure that all states would eventually create unemployment insurance systems. When older or unemployed workers dropped out of the labor force, their consumption would no longer fall precipitously.[36]

***The result was 30 years of unparalleled economic growth and stability.***

Prior to the 1930s, many business leaders and corporations denounced such policies, and President Franklin D. Roosevelt faced significant opposition in getting them enacted. Once in place, however, business leaders discovered that this system had positive outcomes that they could not have achieved on their own or through unregulated markets. First, these measures stabilized demand in the economy and helped create a large middle class base of consumers who served as the most important engine of growth for 30 years after World War II. Second, the system contributed to industrial peace in the workplace, which was especially important for employers who needed stability to reap the productivity benefits from improvements in mass production technology.

Many workers obviously benefited from these provisions as well. Employees had a stronger voice in the workplace and a package of wages and benefits that provided stable, growing income, which was protected to varying degrees even in economic downturns. Certainly the system excluded and provided fewer benefits for many groups of people, such as blacks, agricultural workers, women, most service workers, many public employees, and others who made up the ranks of the urban and rural poor. However, these policies did constitute a broad social compact that helped guarantee that the nation's growing prosperity was more broadly shared and that inequality was declining across the U.S. The result was 30 years of unparalleled economic growth and stability.

Since the early 1970s, however, as the industrial economy has given away to our current information-driven economy, these New

Deal policies have proven less effective at protecting workers and ensuring broad based prosperity.[37] As our economy changes in fundamental ways, it is clear that many of the social and political institutions that exist to ensure prosperity and workers protection have become ineffective and need to be reformed at a fairly fundamental level. The following sections examine the New Deal policies in more detail, explaining why they are less broadly beneficial today than in the past.

***If the minimum wage had maintained its same relationship to the average wage, it would currently be $10.30 an hour.***

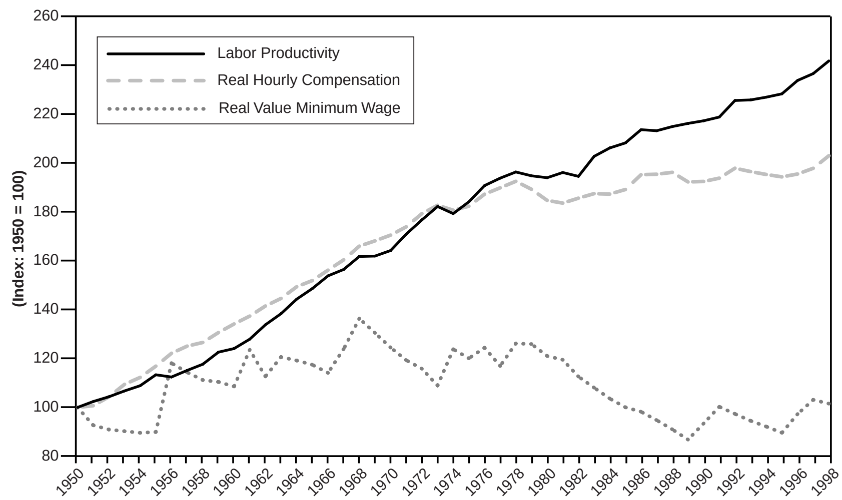
### Minimum Wage

The minimum wage was first established as part of the Fair Labor Standards Act of 1938. Its level was never linked to any measure of economic progress, ensuring continuous political battles over legislation aimed at increasing it. Since October 1950, when the minimum wage was nearly doubled from $2.74 to $5.07 per hour (in 1998 dollars), the value of the minimum wage has been steadily eroded, in comparison to the increases in both productivity and average hourly compensation. Between 1950 and 1978, productivity and hourly compensation rose in tandem, both nearly doubling in real terms. Meanwhile, the minimum wage fell behind significantly, rising only 26%. Since 1978 productivity has continued to increase but average hourly wages have stagnated. During the same period, the minimum wage has lost the entire amount it gained from 1950 to 1978. If the minimum wage had simply maintained its value adjusted for inflation since its peak in 1968, it would currently be $6.90 an hour. If it had maintained its same relationship to the average wage, it would currently be $10.30 an hour. If it had maintained its same relationship to productivity, it would currently stand at $12.30 an hour. Instead, the federal minimum wage now is only $5.15. Though the California state minimum wage is now $5.75, this is still far short of what its value has been in the past by any measure.

This failure to sustain the minimum wage is the reason an increasing portion of people with full time jobs are earning poverty-level wages. As recently as 1979, a full-time, year-round job at the minimum wage kept a family of three barely above the Federal poverty line. The same job in 1993 would have placed such a family $2,442 below the poverty line.

*Unemployment insurance was not designed as a source of funds to help workers develop new skills or get retraining.*

**Chart 18: Productivity and Compensation, 1950-1998**




Source: Total non-farm output and real hourly compensation, from Bureau of Labor Statistics. Minimum wage adjusted for inflation using CPI-U for all urban consumers

## Unemployment Insurance[38]

The unemployment insurance system was designed more than 60 years ago to provide partial, temporary replacement of wages to workers during a temporary cyclical downturn. In addition to helping individual workers, it was also designed to ensure macro-economic stability by sustaining consumer demand during economic recessions and to help prevent dispersal of an employer's trained workforce. The unemployment insurance system assumed that lay-offs are primarily temporary and that workers will return to the same job (or at least the same type of job in the same industry once economic recovery takes place). This assumption has become increasingly untenable in the new economy, and the decline in program effectiveness over the years clearly reflects this. Unemployment insurance was not designed as a source of funds to help workers develop new skills or get retraining. Indeed, it discourages workers from getting significant retraining since they must document that they are available to work in order to continue receiving benefits.

The question of eligibility is crucial. The unemployment insurance system is the single largest program to protect workers who lose their jobs, and it is designed so that workers are eligible regardless of their financial need.39 While the initial coverage has expanded (it used to exclude firms with fewer than eight workers), there are still major restrictions on who is eligible for unemployment. First, it excludes all self-employed workers. This immediately rules out from 7 to 9% of the workforce. Also, in order to be eligible, workers must demonstrate previous attachment to the labor force, measured by the amount of earnings in 'covered' employment during the base period. Currently the threshold level in California of $1,300 a quarter eliminates large numbers of low-wage, part-time workers. The state also determines the reason for unemployment. Unemployment insurance is designed to only assist those 'involuntarily unemployed'. This excludes those who quit work 'without good cause connected to the work', commit misconduct connected with the work, or refuse suitable work. These individuals are disqualified from receiving benefits. Workers must also demonstrate continued readiness to work on a week-to-week basis in order to retain eligibility. They have to certify that they are able to work and available for suitable employment.

***The time limit for benefits is simply too short for many workers in today's economy.***

As the economy has changed, with more temporary, part-time, and unstable employment patterns, unemployment insurance has become less effective in assisting displaced workers. Nationwide in the 1950s an average of 49% of unemployed workers received benefits, but in the 1990s only 35% receive benefits (although 39.1% of the unemployed in California received benefits in 1997).

The percentage of jobless workers receiving help has declined partly because many workers are unable to find suitable work before the maximum period of benefits has been exhausted. The time limit for benefits—26 weeks in California—is simply too short for many workers in today's economy who must switch occupations when they are laid off. Furthermore, because they must certify that they are available for suitable work, the unemployment insurance system acts as a disincentive for people to return to school for additional education and training, which often is exactly what they need.

The benefits provided through unemployment insurance are also inadequate. In most states, unemployment insurance is designed to replace about 50% of a workers' wage up to a maximum benefit level. California's plan replaces only 39% of wages. (Only Louisiana, Alaska, and the Virgin Islands replace a smaller share of wages.) Such a low replacement level provides little assistance for people trying to refine or expand their skills to meet the needs of our rapidly changing economy. Consequently, the program does little to reduce chronic and repetitive unemployment.

***The national laws governing labor relations has not adjusted to changing economic realities.***

## Labor Relations

The national laws governing labor relations, codified in the Wagner (1935) and Taft-Hartley (1947) acts, may have been well suited to the industrial society of the 1930s to the 1950s, but this framework has not adjusted to changing economic realities. The central reason for this is that the system for union recognition, and for bargaining, assumes a long-term, continuous, on-site and full-time commitment between employers and employees — in short, the mass-production, stable manufacturing industries of the New Deal era.

This system has made representation difficult in industries with high turnover or insecure market conditions. As the economy has shifted towards more service industries and white-collar work and has become more volatile, it has become increasingly difficult for workers to organize, and the level of union representation has declined. Furthermore, at least until recently, the labor movement has been growing isolated from the growing and dynamic parts of the economy. It has been dominant in traditional manufacturing industries, but not in the growing ranks of service and white-collar employees.

Several fundamental principles of our labor relations system are responsible for much of this decline:[40]

1. The Wagner Act created a sharp distinction between production workers and management. Workers were assumed to be solely concerned with wages and working conditions and not

with the strategic direction of the firm or industry. Management, on the other hand, was assumed to have full competence in running the enterprise. This division of power and responsibility contributed to an adversarial unionism that hinders new forms of work organization and new forms of employee participation. It tends to limit bargaining to simply wages and working conditions, rather than the whole array of work, employment, and economic issues that shape long-term employment opportunities.

2. The system assumed the organization of production would remain the same as that prevalent in assembly-line, mass production industries, making representation in fragmented service industries and within complex subcontracting arrangements extremely difficult. For example, only in the construction industry, are firms allowed to enter into pre-hire agreements with unions. Multi-employer bargaining systems are not encouraged.
3. The system has limited coverage, excluding anyone with supervisory responsibilities from union representation. An estimated 43% of the entire workforce is not covered under the Wagner Act. This includes domestic workers, agricultural workers, supervisors and managers, self-employed workers, independent contractors, professional employees and others.
4. The process for union certification creates numerous barriers to organizing. The long periods of time leading up to union certification elections allow employers to pressure workers to reject unionization. Complex rules governing the definition of collective bargaining units create legal channels for employers to challenge union campaigns. Legal restrictions on pre-hire agreements, recognitional picketing, secondary boycotts and other 'secondary activities' have taken away union weapons that were crucial to bargaining efforts in the 1930s. Guidelines for collective bargaining units hinder the development of multi-employer agreements needed for effective union representation in fragmented industries.

***An estimated 43% of the entire workforce is not covered under the Wagner Act.***

As a result, the portion of the workforce represented by unions nationally has declined dramatically. Following the passage of the Wagner Act, union representation rose steadily, as the founders of the Act anticipated, from 11.6% of the workforce in 1930 to 35.5% in 1945. Since the 1950s, however, there has been a steady decline in the percentage of the workforce represented by unions. The absolute number of people in unions continued to rise into the 1980s, reaching a peak of 22 million, but the absolute numbers have declined since then as well. In 1998, 13.9% of the labor force was unionized, representing 37.5% of public sector workers and only 9.5% of private sector workers.

*These primary educational institutions do little to help people in the workforce to adjust to rapid changes in the economy.*

## Employment Training Systems

The system of employment and social policies implemented under the New Deal assumed a well-functioning education and training system, which generally met the needs of business for an appropriately skilled workforce. However, this system is primarily designed to give people basic education early in life and thus provide them access to entry-level positions. It is poorly suited to providing people with life-long learning and continuing education.

The bulk of money spent on education—about $40 billion a year in California—goes into our basic education system—elementary and secondary schools, community colleges, and universities. Education clearly has a central, basic purpose in developing responsible citizens and members of society, but it also plays a critical role in preparing people to be productive members of the workforce. Except for various university extension programs and some community college contract training initiatives, however, these primary educational institutions do little to help people in the workforce to adjust to rapid changes in the economy.

Additional training programs are funded through other state and federal employment and training initiatives, including the Workforce Investment Act (formerly Job Training Partnership Act), CalWorks, several programs in the Health and Welfare Agency, the Employment Training Panel, and a variety of smaller programs. The total spending for all of these programs is over $2 billion annually. Most of these programs, however, are ‘second chance’ programs. They are made available to workers only when they are displaced, have special barriers to employment, or are disadvantaged in some way from the educational system. Programs are structured in such a way that workers are trained either for entry-level positions or for their immediate return to the labor market. There is little effort to maintain relationships with students over long periods of time. Participants are steered into employment that might last for six months but not necessarily longer. There is little effort to integrate students either into designing the program or into helping other students still in training. These systems—conceptualized as providing a 'second' chance and training for entry-level positions—are poorly integrated with each other or with firms' internal training programs.

***It is important to create networks for learning that cut across firm boundaries and link the workplace and training institutions.***

Also, a fundamental flaw exists in the way most training institutions assume that learning takes place. These institutions assume that learning is an individual process, that it has a beginning and an end, and that it is best separated from the rest of our activities. As recent research on learning and work has demonstrated, however, learning is an on-going social process that is rooted in workers' everyday activities. People's success in learning depends on the nature of their social networks and day-to-day practices on the job.41 A person's ability and adaptability at work depends on who she relates to on the job and how she relates to them. Training programs that are most successful integrate instruction with practical work experience. They encourage individuals to explore ideas and learn together while building relationships with others in their field.

In the context of our rapidly changing economy, where people move more frequently from firm to firm but often stay within an industry or occupation, it is especially important to create networks for learning that cut across firm boundaries and link the workplace and training institutions. Some cross-firm learning networks already exist through various professional associations, union-led apprenticeship programs, and other occupational groupings. Such occupation-based networks provide important models that need to be expanded and improved. They could greatly help workers learn how to adapt to changes. Most training programs, however, don't deal with changing skill demands in the workplace or with integrating individuals into networks of people in similar occupations. Thus, there is no way of evaluating their effectiveness in supporting life-long learning.

# 5. Conclusion: Building a New Social Contract

The old social contract fostered 25 years of unparalleled economic growth and prosperity in this country following World War II. Assured a stable workplace and market, companies were able to improve productivity and expand operations, and the families of many workers in the core national industries benefited from secure employment and steadily rising standards of living. The system was far from perfect. Many people were still left out. Women and minorities found themselves relegated to lower-paying jobs or received lower wages for the work they performed. Agricultural and public sector workers were excluded from key legislative protection, and large numbers of urban and rural poor saw few opportunities for advancement. Nevertheless, the system of balances and mutual responsibility ensured broad prosperity, stable livelihoods, declining inequality, and a significant sharing of the wealth.

***Piecemeal reforms of existing programs and institutions are not likely to work well.***

The new economy is booming, but workers face serious problems—growing insecurity and volatility in employment, the disappearance of middle-income jobs as employment grows in both low-paid and high-paid occupations, declining career prospects, and stagnant or declining wages.

Clearly there is an urgent need to build a new social contract to ensure growth and shared prosperity in the new economy. Appropriate, comprehensive public policies are required that can support the economic flexibility that firms need to be competitive while also minimizing workers' insecurity and ensuring that economic risks and rewards are shared more equitably.

Just as the fundamental changes in our economy are creating new industries and dramatically restructuring competition and production in older industries, the creation of a new social contract requires rethinking fundamentals as well. Piecemeal reforms of existing programs and institutions are not likely to work well. As the old system breaks up, however, we do have an opportunity to build more inclusive institutions than in the past, creating a new social contract that truly lives up to the ideal of democracy and opportunity for all.

***We should implement a comprehensive new social contract at all levels before the costs of inaction escalate.***

Developing such comprehensive reforms will not be easy. During the era of industrial mass production in this country, it took a major depression to provide the stimulus to create employment policies and institutions appropriate to the new structures of employment. We should learn from mistakes of the past and implement a comprehensive new social contract at all levels—local, state, national and global—before the costs of inaction escalate.

There are four primary social needs that a new social contract must fulfill. While the details of how we design policies to meet those needs will require more research, discussion and experimentation at all levels of government, this section presents a framework to help statewide policy makers debate the solutions.

- **Increase Workers' Earnings and Financial Assets:** Most workers—not just those earning very low wages—need higher incomes. They especially need policies that increase their earnings over their entire work lives and that help them accumulate a variety of financial assets. In addition to providing a more secure livelihood, expanding workers' financial assets can help them deal with layoffs or displacement.
- **Reduce Insecurity and Minimize the Harm of Dislocation:** Dislocated workers need more support during periods of economic pressure and more assistance in finding new jobs which provide adequate incomes.
- **Provide Lifelong Education for Work and the Development of Careers:** To find and keep good jobs in the new economy, workers need access to education throughout their work lives and organizational help in developing careers and networks of support.
- **Promote the High Road to Economic Development and Block the Low Road:** Economic development programs and public subsidies should reward only employers who pursue high-road strategies to counter competition and to grow. In addition, public policy should cut off assistance to firms that try to compete by avoiding regulations, cutting wages and benefits, increasing insecurity, or cutting jobs.

Taken together, reforms in each of these areas would go a long way towards creating a new social contract to match the development of the new economy. Each of these broad policy goals is developed in more details below.

***The most pressing need is providing stable, satisfactory income for the large bloc of workers now earning poverty wages.***

### 5.1 Increase Workers' Earnings and Financial Assets

Under the old social contract, wages for nearly all workers rose along with our economic growth and improvements in productivity. Whether through union wage contracts, competitive non-union wage increases, or effective minimum wage and employment policies, economic growth usually improved earnings and living conditions for workers.

In the new economy, however, rapid growth can be accompanied by a simultaneous, significant decline in the quality of life and standard of living for most workers. Wages have declined in absolute terms at the bottom of the labor market and stagnated at most levels. In addition, life-time earnings have become more erratic and uncertain. This problem requires mechanisms to raise wages and increase financial assets for workers at nearly all income levels.

The most pressing need is providing stable, satisfactory income for the large bloc of workers now earning poverty wages. Low-wage jobs will continue to serve as a major source of employment for large sectors of the workforce. While technology may increase productivity in certain sectors of the economy, other occupations may never be transformed. Thus, an important goal should be to ensure a livable wage for workers in jobs which currently pay poverty level wages. Specific programs that could be pursued include the following:

- **Raise the Minimum Wage:** Most critically, the minimum wage should be raised and indexed, at least to keep pace with inflation, preferably to increase as productivity rises in the economy as a whole (or in the particular industry). Recent research has documented that modest minimum wage

*In an unstable economy, workers cannot rely on consistent income from wages and need additional sources of financial support.*

increases have little effect on overall employment and may actually increase employment, since small firms benefit from lower recruitment, training and motivation costs.42

- **Create a California Earned Income Tax Credit:** California could also implement a California Earned Income Tax Credit (EITC) to provide assistance to low-wage workers. The Federal EITC has been one of the more effective targeted programs providing cash assistance to the working poor. Creating a similar program at the state level would provide additional cash support to low-wage workers.
- **Encourage Unionization and Collective Bargaining:** Ultimately, low-wage workers need collective bargaining to raise wages and offer them a voice at work. Collective demands for higher wages can provide an additional incentive for employers to improve their productivity and quality of goods or services. Many individual employers will resist unionization, since they fear it will put them at a competitive disadvantage. However, encouraging representation throughout an industry and encouraging bargaining between a union and a broad group of employers assures a level playing field for all firms. It helps to take wages out of competition, pushing companies to compete more through superior service, product quality and productivity, rather than simply cost-cutting.

In addition to raising the wage floor, however, there is also a need to stabilize life-long earnings and enlarge the financial assets of individuals. In an unstable economy, workers cannot rely on consistent income from wages and need additional sources of financial support. Specific programs that could be pursued include the following:

- **Promote Multiple Compensation Systems:** Promote multiple compensation systems, such as those that exist within the entertainment industry. In addition to their basic wages, many workers in the industry receive residuals—additional payments to workers for the exhibition of a product in media other than the one for which it was originally created or for its reuse within the same medium after the initial exhibition. Payment continues as long as the product continues to be sold. Residuals are a particularly important source of income for workers starting out in the industry at lower initial pay levels. This system developed through union negotiations with a multi-employer association and could be expanded to other industries as well.[43]

- **Expand Employee Stock Ownership:** Expand Employee Stock Ownership Programs (ESOPs) and stock options to encompass a wider range of employees. When properly implemented, such programs offer assets to large sectors of the workforce, while improving motivation and effectiveness on the job. They can also give workers the opportunity to gain wealth from the success of previous employers, even if they have changed jobs.44 Although stock ownership programs are generally limited to direct employees of a firm, given the extensive use of sub-contracting networks and outsourcing in the new economy, indirect workers should be made eligible for stock options.
- **Improve pension systems:** Better pension systems are particularly important since small employers continue to provide much less access to employer-sponsored pension programs than large employers. There is potential for taking advantage of economies of scale in administrative costs by pooling small employers in the same industry together, thereby increasing the portability of pensions. In addition, there is need to expand the options for pre-tax contributions to pension plans.
- **Create a California Lifelong Learning Fund:** This fund (CALLF) would provide resources for continuing education for all current and future California residents. It would be created and expanded through regular annual payments (including possible stock contributions) by all businesses operating in the State of California. The fund would invest primarily in California-based companies in order to help improve the California economy and to benefit from California growth. All residents of the state would have access to income from the fund to support education of their choice. The distribution would be designed to disproportionately help lower-income residents, possibly through a staged matching contribution system. (For example, low-income residents might get a $10 match for every

***The California Lifelong Learning Fund would provide resources for continuing education for all current and future California residents.***

*We need to develop more preventive social service programs that can provide financial support for people while they are trying to return to gainful employment.*

$1 that they spend on education (up to a maximum amount) but the higher-income residents would only receive a $1 match for each $1 they spend).

The concept is similar to the Alaska Permanent Fund, which was established through a Constitutional amendment approved by Alaska voters in 1976. The amendment provided that at least 25% of oil revenues paid to the State would be deposited into a public savings account and invested for the benefit of current residents and all future generations of Alaskans. One of the most unusual aspects of Alaska's Permanent Fund is the dividend program, which distributes a share of the Fund's earnings to every Alaska resident each year ($1,540.88 in 1998).[45]

The California Lifelong Learning Fund would be somewhat different. Rather than depending on revenues from industries that deplete natural resources, it would be supported by the entire economy. Rather than providing a dividend to be used by individuals for any purpose, the income would be devoted solely to activities which assist the California economy–providing education and training to our workforce.

### 5.2 Reduce Insecurity and Minimize the Harm of Dislocation

Under the old social contract, job dislocation was limited primarily to temporary layoffs in major industries due to cyclical business patterns. The Unemployment Insurance System provided a basic temporary support for people until they could be rehired into their old jobs in the next business upswing. Seniority systems ensured that as workers grew older and had more financial responsibility for families, their jobs and income were more secure. Workers in peripheral industries and jobs, whose wage floor was at least protected by a decent minimum wage, typically experienced the most insecurity.

In the new economy, workers at all levels face insecurity, job dislocation and potentially long-range unemployment. Public policy must ensure support for people in such difficult times.

We need to develop more preventive social service programs that can provide financial support for people while they are trying to return to gainful employment and prevent them from being truly displaced or needing welfare support. Building better income support during job transitions is also essential, since the current high level of dislocation is unlikely to decrease significantly in the foreseeable future. Specific programs that should be considered include:

***The state should provide funds to replace at least half of an unemployed worker's wages.***

- **Expand and improve the unemployment insurance system:** Strengthening the unemployment insurance system includes, first and foremost, expanding coverage to include the part-time, temporary, and contract workers who are currently largely excluded, either because their income is below the threshold or because, if they refuse assignments to another temporary jobs, they can lose their eligibility. Second, unemployment benefits should be available for a full year (or at least 39 weeks) instead of the current limit of 26 weeks. This would accommodate workers who need to develop new skills and change occupations or industries. Finally, the state should provide funds to replace at least half of an unemployed worker's wages. Currently, California has one of the lowest income replacement rates, with unemployment insurance providing on average 38% income replacement compared to a national rate of 47%. Only Louisiana, Alaska and the Virgin Islands provide a lower income replacement rate.
- **Create Rent Vouchers:** Create rent vouchers to support workers who are in training or adult education programs. Many workers have difficulties getting retraining because they can't cover basic living expenses while in school, not because tuition and school fees are too high. Such housing vouchers have been made available on a limited basis for people making the transition from welfare to work. They could be expanded to be available to other workers who have been displaced but aren't on welfare.
- Make Health and Other Benefits Portable: Health care and other benefits should be made more portable from job to job by pooling workers' benefits programs based on occupations

*The overall goal of workforce development programs should be helping to ensure workers' livelihoods and careers in the long run.*

or through expanding community-based health programs. Health care should not be based necessarily on one's place of work, but on a broader, more stable organizational relationship. Short of a single-payer national health system, promoting portable union benefits programs or collective programs available through professional associations would allow for the greatest economies of scale in purchasing and administration. Many small businesses would benefit from such expanded systems, since they would be able to reduce administrative costs of benefit programs.

### 5.3: Provide Lifelong Education for Work and Development of Careers

During the era of the old social contract, education and training systems were designed fundamentally to serve two distinct groups. The first of these was young people who required a basic education at school before they entered the full-time job market or embarked on their careers. The second group included disadvantaged workers who hoped for 'second chance' assistance either because they did not adequately benefit from the basic education systems, or because they needed additional support to gain access to entry-level positions in the labor market. Relatively little attention was paid to on-going training, since it was assumed that employers would provide the necessary firm-specific skill development that workers would need to be successful in their jobs. While this internal firm training may not have been abundant, it was significant—stable employment relations meant that firms had significant incentives to provide training, since they could expect their (presumably more productive) employees to stay with the firm for an extended period.

In the new economy, however, a significant contradiction has become noticeable. While there is much greater need for workers to continue to learn through out their work lives,  firms are providing less internal training. Employers continue to complain about acute shortages of skilled workers, yet they often assume that this training should take place externally. The source of the problem can be explained by the immediate self-interested calculations of employers and employees. Firms often under-invest in training for many of their own employees, since rapid turnover makes it hard for them to capture the benefits of a more skilled workforce. Conversely, employees are unlikely to invest in appropriate training for themselves when they lack the resources, or lack appropriate information about job availability or have little assurance that increased education will translate into improved career opportunities. Many workers feel isolated, buffeted by rapid changes in their industry and uncertain about changing skill requirements. Thus, they either don't know about or don't pursue the limited training that is available.

***The best way to develop this new workforce development infrastructure is through regional training partnerships.***

Confronting these problems requires significant reforms in the institutions that make up our workforce development infrastructure. The overall goal of workforce development programs should not simply be helping people gain access to employment, but also helping to ensure workers' livelihoods and careers in the long run. Workforce development institutions need to do more than simply seek to improve employee skills in the supply-side of the labor market. They need to also work towards restructuring employment relations, coordinating with employers to ensure both that the training that is provided is effective and that this improved training is rewarded through improved careers and livelihoods.

The best way to develop this new workforce development infrastructure is through ***regional training partnerships.*** Such training partnerships bring together employers, unions, local training providers and the community college system to develop customized ***sectoral and occupational specific*** training programs. Examples of such regional training initiatives include the San Francisco Hotels Partnership, the Garment Industry Development Corporation in New York, and the Temporary Worker Employment Project in San Jose.

It is important that such partnerships focus on a particular sector and/or occupations, in order to create effective customized training, and to ensure cross-firm employment opportunities. The rapid changes inherent in the new economy require detailed and

***Regional training partnerships should develop certification systems that are recognized by both employers and employees.***

constantly updated information on changing labor market trends. Training institutions must have the ability to anticipate future shifts in the labor market and develop a long-term outlook on career opportunities. This sophistication is nearly impossible to develop in a shot-gun approach that targets a wide-range of occupations or sectors.

Employers need to be integrated into this sectoral approach in a collective way, not simply on a one-to-one basis. Collective commitment to regional training programs is essential for two reasons. First, all firms will have the ability to both share the costs of creating a pool of skilled workers as well as benefit from the ongoing availability of such an employee base. Secondly, the training that is developed needs to be widely recognized within particular industry sectors. Again, this is important both to ensure that the training is effective in meeting the needs of employers in the area, and to ensure that workers' skills are recognized and rewarded through increased wages.

Regional training partnerships should also work toward developing ***regional skills standards***—certification systems that are recognized by both employers and employees in the region. In the clerical field, for instance, an industry cluster might design several grades of clerical competencies. Workers would progress through subsequent grades over time by demonstrating capabilities over progressively more complicated administrative knowledge and tasks. These programs should be fluid, allowing an open entry and open exit in line with the complicated schedules of workers in the new economy. The Temporary Employment Project operated by Working Partnerships USA in San Jose is already demonstrating such open educational models. Lastly, employers would need to agree to the appropriate tests to determine grading levels but would benefit from lower recruitment and training costs, along with confidence in the ability of newly hired employees.

Workforce development institutions also need to be integrated into a rich ***network of learning environments*** that link together various types of workers: permanent and temporary; experienced and entry-level, and those with various complementary work responsibilities across multiple firms. These connections are essential for building life-long learning, and moving away from the conception of training as a one-time activity that is separated from people's on-going work lives.

***Workforce development institutions are in an ideal position to help create inexpensive access to health care and other benefits.***

Workforce development institutions should also strive towards ***mediating the risk*** that workers face in today's labor market. They are in an ideal position to help create inexpensive access to health care and other benefits, through developing economies of scale in purchasing and the administration of benefits. Regional training partnerships can bring together multiple small and medium size employers in a region who face increasing benefits costs on their own, but who could enter into cooperative purchasing agreements to improve access and decrease expenses. Workers who develop experience within an industry cluster overtime, even if they move to multiple employers, would be able to retain their more portable benefits structure, and have a first line of protection in the case of periods of temporary displacement.

Finally, the best workforce development institutions will also be ***deeply rooted in poor neighborhoods and disadvantaged communities.*** Linking poor communities to the regional economy is essential not only for confronting inequality, but also for ensuring long-term economic prosperity. Many disadvantaged workers are stuck in dead-end, low paid jobs, and have little knowledge of other employment opportunities. Workforce development institutions that are rooted in the community are better situated for linking workers into employment opportunities in a region's core industries and firms.[46]

Obviously developing such regional training partnerships requires the active participation of the appropriate stakeholders at a local level—unions and other organizations representing the workforce, employers, and local training institutions. ***Public policy*** can play an important role in helping to ensure that this interaction takes place. Most training is either paid for or subsidized in some way through public funding sources. Such funding should be made conditional on organizations accomplishing more

*When companies receive subsidies, there is no measurement of their performance to the public.*

than simply demonstrating their effectiveness in placing workers in short-term jobs. Instead, funding streams can provide incentives for developing collaborative training programs that bring together the appropriate stakeholders and help develop regional skills standards. In addition, funding streams should also be used to induce workforce development institutions to establish the internal capacity to create these regional training partnerships. Relevant capabilities include technical expertise in understanding local labor market trends and a diversity of management and business skills needed to build these partnerships.

### 5.4 Promote the High Road to Economic Development and Block the Low Road

Under the old social compact, companies exercised a certain level of responsibility not only to their shareholders, but also to their workers, the communities in which they were located, and to the nation. Stable market conditions and a protected national economy allowed many firms to move beyond a narrow profit motive and recognize their long term interests in sharing responsibility for broader prosperity and social welfare. To be sure, in many cases corporate leaders did not come to this position out of altruism or of their own initiative. Nonetheless, pushed by union organizing, public pressure and government policies, many corporations came to realize the benefits of the social compact and its related commitment to workers, community and country.

In the new economy, our largest companies are global in nature and face intense international competition. In addition, the increased fluidity in global financial markets has increased the pressure companies feel from their shareholders. Sadly, these factors lead some companies to place short-term profits above all other considerations. Corporate responsibility to other stakeholders, including workers, communities in which they operate, and the public good too often receive low priority, if any consideration at all. This attitude is perhaps best epitomized in the words of James Meadows, AT&T Vice-President for Human Resources, who was quoted in the New York Times on February 13, 1996, as saying, "People need to look at themselves as self-employed, as vendors who come to this company to sell their skills. In AT&T, we have to promote the concept of the whole work force being contingent [i.e., on short-term contract, no promises] though most of our contingent workers are inside our walls."

***Public financial assistance should be geared towards promoting 'high-road' economic development strategies.***

Nevertheless, many companies still expect subsidies from local and state governments or preferential tax treatment. Such assistance is appropriate when companies earn it through improved economic performance, job creation and investment in the local community. All too often, however, when companies receive these subsidies, there is no measurement of their performance or the return to the public on its investment and no accountability to public authorities. In one of the most egregious recent instances, Willamette Industries received a total of $132.2 million in tax credits for an expansion of their lumber mill in Hawesville, Kentucky, which will result in the creation of 15 net new jobs—the equivalent of $8.8 million in taxpayer money for each job.47 In many cases, publicly subsidized companies also fight against worker efforts to organize, even directly or indirectly using public money to pay for anti-union consultants and strategies that skirt the edges of legality or even blatantly break the law.

This refusal of major companies to be accountable to the public and the failure of officials to demand such accountability is unacceptable. Economic development programs should reward those companies that exhibit a commitment to their workers, communities, and the public interest. Public financial assistance should be geared towards promoting 'high-road' economic development strategies. Such strategies encourage competitiveness by enhancing skills, improving productivity, increasing quality, customizing products, and improving customer service. This is in contrast to 'low-road' economic development strategies in which companies compete simply through cutting costs, reducing wages, driving workers harder, and despoiling the environment. Policies to pursue include:

1. **Set Minimum Performance Standards for Public Subsidies:** To promote high-road economic development strategies, all

*Public authorities should never provide a subsidy of more than $35,000 for each job created.*

forms of public subsidies and assistance to companies should set minimum performance standards and establish methods of measuring the impact of the public subsidy.[48] The standards should include:

a. **Minimum job quality standards.** Specific wage levels are often set as an appropriate percentage of a county, city or industry's average wage. Iowa, for instance, requires all recipients of grants or loans to pay non-supervisory employees at least twice the minimum wage. Rhode Island requires recipients of a Capital Equipment Tax Credit to pay a median wage that exceeds the state's average for that business category (using the broad, two-digit Standard Industrial Code of the Department of Commerce). Since 1996 Santa Clara County, California, has required recipients of property tax abatements to pay a minimum of $10 an hour, with full health care benefits or an appropriate alternative.

b. **Subsidy Caps:** Public authorities should never provide a subsidy of more than $35,000 for each job created. That is the maximum amount allowed by the Small Business Administration and the U.S. Department of Housing and Urban Development. Other states have set lower caps or guidelines. The Pennsylvania Department of Community and Economic Development sets a cap of $25,000 per job in their Infrastructure Development Program, while the Illinois Department of Commerce and Community Affairs has a $10,000 cap in their Community Development Assistance Program.

c. **Good Employer Standards.** Recipients of public subsidies should be required to document that they are good employers. A good employer should demonstrate positive labor relations practices and show no overt hostility to workers who want a union, maintain a healthy workplace, and actively create equal employment opportunities for all.

*Promoting unionization and collective bargaining is another high-road economic development strategy.*

d. **A Standard for Greater Fairness in Competition for Jobs:** By embracing subsidy standards, the state would create a more level playing field for cities and counties, giving local officials clearer signals about the intent of economic development programs. It would prevent one city from luring jobs away from another by offering the "low road" option, and it would strengthen the hand of public officials as they bargain with corporations.

2. **Promote unions and collective bargaining:** Promoting unionization and collective bargaining is another high-road economic development strategy. Unions help ensure that employers are paying fair wages and investing in their workforce. Unions can play a key role in ensuring effective development of skills and improving the motivation of their members. This is particularly true in industries with multi-employer bargaining, where unionization across the industry can help take wages out of competition and encourage companies to compete on the basis of quality, service, innovation and investment in more advanced technology. Reform of labor law primarily has to occur at a Federal level, but state officials can play a role in advocating reform in the following areas:

a. **Redefine 'Employee':** Expand the definition of 'employee' under the NLRA to include those currently excluded either by statue or by case law. Roughly 50 million workers (43% of the workforce) are now explicitly exempted from exercising their rights to collective bargaining. This includes domestic workers, supervisors, managers, self-employed workers, and certain categories of professional employees.

b. **Expedite Union Recognition:** Grant union recognition when a solid majority of members sign union cards, as in the Canadian system, or reduce the length of union election campaigns and either prohibit employer interference or give equal access to workers by both management and union organizers. Employers often abuse their

*Unions must once again have the ability to organize 'top down' and to exert economic pressures on employers.*

power during union election campaigns, intimidating workers into voting against union representation. Requiring only a check of union membership cards or shortening periods between the filing and actual administration of a union election, while regulating employer intervention, would help reduce employer abuse of workers' statutory right to organize and act collectively.

c. **Promote Multi-employer Bargaining Units:** For effective bargaining to exist in an industry dominated by numerous small employers, the law needs to facilitate collective bargaining between unions and groups of employers. Multi-employer bargaining is also necessary for stable, effective collective bargaining relationships in industries with high levels of turnover, project-based employment, or contingent employment.

d. **Broaden Joint Employer Responsibilities:** Where there are sub-contracting and leasing arrangements, broaden the definition of joint employer status. Currently the dominant, core employer bears little responsibility for the economic conditions of their sub-contractors' employees, yet the larger, "host" employer decides whether or not there will be jobs for those 'employed' by the subcontractor. For instance, a building owner can legally terminate a building service contract to block union organization of a contractor, even though such action by an 'employer' would ordinarily violate Section 7 of the NLRA

e. **Remove Barriers to Effective Union Organizing:** Remove the legal restriction on pre-hire agreements, recognitional picketing, secondary boycotts and other 'secondary activities'. Unions must once again have the ability to organize 'top down' and to exert economic pressures on employers that were once legal. Historically, the millions of non-factory workers—teamsters, longshoremen, waitresses, cooks, musicians and others—who successfully organized between the 1930s and the 1950s relied on pre-hire agreements, recognitional picketing, secondary boycotts, limitations on nonunion goods and similar strategies to secure bargaining rights. Making these approaches legal once again would enable unions to organize many workers now effectively beyond organization, ranging from home-based legal transcribers and domestic cleaners to the millions of newly mobile professional consultants and managers.

f. **Penalize Rogue Corporations:** Corporations that abuse and obstruct workers' rights under national and international law to organize, bargain and take collective action should not be eligible for contracts or subsidies from public authorities. Violations of labor rights should be treated like violations of civil rights laws. We need to strengthen the penalties and remedies available where employers unlawfully interfere with the rights of workers to organize. Current law is extremely inadequate and provides little deterrent value whatsoever.

*Corporations that abuse and obstruct workers' rights should not be eligible for contracts or subsidies from public authorities.*

In addition collective bargaining practices must be redesigned to enhance employee participation and to broaden communication between employee and employer. Rigid, detailed work rules became less important in an environment in which decision-making has been shifted downward and in which trust and good relationships between parties is deemed of value.

### Improving Systems for Identifying and Documenting Insecurity

In addition to the policy goals outlined above, it is also important to improve our methods for identifying and documenting new forms of economic insecurity. Systems for analyzing data on insecurity, particularly at a local level, are incomplete at best and often do not even exist. Accurate statistics on job turnover, income mobility, wealth accumulation and long-term earnings are kept only at a national level. Policy makers need to have a more

*We also need to develop better indicators of insecurity beyond measures of earnings and wealth.*

complete understanding of who is affected by economic volatility and how they are affected. This is essential for targeting programs at appropriate populations and working to prevent people from falling victim to changing labor demands.

Improved information systems should focus on long-term careers, rather than current jobs. Gathering static information about the number of jobs or industry growth may provide some information on changes in the economy as a whole, but it provides no information on the employment paths of individuals or their prospects over time. Even data in this report on wage trends over-time are incomplete, since they only present a cross-section of the population from year to year and do not trace individuals over time. Instead of cross-sectional data, we should have better data systems for tracking individual career paths over longer periods. At a minimum, data is needed on people's long-term earnings, rather than simply current wages. Such data would help identify patterns of rising or stagnant earnings. It would help detect those points at which there are dramatic changes in people's earnings. If we are able to identify particular industries, occupations or regions where sharp drops in earnings are more frequent, or identify particular age, ethnic, gender, or educational groupings of people who face severe fluctuations in earnings, public officials could develop better assistance and retraining programs.

We also need to develop better indicators of insecurity beyond measures of earnings and wealth. Lack of access to affordable housing, barriers to continuing education, and lack of social support networks influence how people can cope with a volatile economy. To accomplish this task, the state could learn from numerous recent efforts to develop new, more comprehensive and subtle measurements of the quality of life in communities.[49]

### 5.5 Developing Win-Win-Win Solutions

The new social contract envisioned here would do more than enhance workers' livelihoods. Its aim goes beyond making government programs more applicable to the new economy. It is designed to create win-win-win solutions among the private sector, the public sector, and individual workers and their families.

Businesses would benefit in a number of important ways. They would be more able to pursue the flexibility they seek without extensive government regulation. They would have access to better trained and motivated workers. They would be able to operate in communities with a high quality of life for everyone.

***The new social contract is designed to create win-win-win solutions among the private sector, the public sector, and workers and their families.***

Workers would clearly benefit as well. First, they would earn more and consistently receive a greater share of the economy's productivity gains. Second, they would find it easier to get new jobs and would have greater overall security. Finally, they would be more empowered to express their needs on the job and in the economy

The public sector would also gain, partly from greater social stability, less dislocation and less conflict. Public investment in education and training would realize a better return. By playing a critical role in ensuring a fair and stable social contract, by helping to level the playing field, and by providing support to workers, the public sector would gain legitimacy and support from citizens.

Ultimately, this system would create an environment in which business could remain flexible and innovate, while workers are protected from extremes of insecurity and growing prosperity is more broadly shared.

# 6. About Working Partnerships and the Economic Policy Institute

## Working Partnerships USA

Working Partnerships USA was formed in 1995 in response to a growing concern about the increasing disconnection between Silicon Valley's economy and the well being of large sectors of the workforce. Founded as a collaboration between community-based organizations, Working Partnerships has brought a wider range of voices to the table in discussions around regional economic development and state and national workforce development and employment policy. Through grassroots campaigns, popular economics education, research, and advocacy, Working Partnerships is developing systemic reforms to the economic problems confronting working families and advancing viable strategies for addressing concerns about the health of communities.

Working Partnerships is developing a set of institutional responses to the changing nature of the economy through a three-part strategy of developing new economic indicators, new partnerships across constituencies and new models of workforce development. Informed by an innovative research agenda, Working Partnerships is developing the next generation of labor market intermediaries, creating a policy framework which will assist local organizations to address major issues, and encouraging coalition building among groups with a limited history of effective collaboration.

### Innovative Research Agenda

In 1998, Working Partnerships published *Growing Together or Drifting Apart?: Working Families and Business in the New Economy,* which detailed the extent to which wages have stagnated or declined in Silicon Valley. The report also enumerated a broad selection of social indicators that revealed a community in need of a much more equitable distribution of the unprecedented wealth created in the new economy. That report is one of the first critical analyses of the failings of the new information economy and gives community leaders a base of knowledge to challenge prevailing economic wisdom and allows them to be both "actors" and "thinkers" capable of shifting the economic debate.

Working Partnerships has also published *Shock Absorbers in the Flexible Economy; the Rise of Contingent Employment in Silicon Valley,* sparking a national dialogue on employment relationships and providing a catalyst for policy development to mitigate the adverse consequences of temporary employment. This study gave decision-makers and the community new tools to understand some of the major flaws in our current labor market, particularly the economic insecurity of 50,000 workers.

### Creating The Policy Framework for Economic Justice

In its first year, Working Partnerships led a community campaign in support of a decision by the Santa Clara County Board of Supervisors to link business tax assistance to performance in creating jobs. In 1998, Working Partnerships initiated educational efforts to inform residents of San Jose about the positive effects of a Living Wage policy. With a strong foundation laid by its *Growing Together* report, Working Partnerships successfully focused subsequent discussion on the challenge of basing city economic policies on shared community values. As a result, with overwhelming public support, the San Jose City Council passed a Living Wage ordinance that set a living wage at $9.50 with benefits, included strong worker retention language and a "labor peace" provision.

### Building Relationships Across Constituencies

Working Partnerships' goals reflect a strategic long-term vision for helping local and regional organizations define how issues are debated and build an agenda that offers proactive solutions to socio-economic problems. To achieve these objectives, in 1997, Working Partnerships initiated the Labor/Community Leadership Institute. Based on a cooperative agreement with San Jose State University, the Labor/Community Leadership Institute is an eight-week course that trains activists in the tools of economic analysis and the leadership skills needed to put them to use. Leaders from neighborhood groups, unions, clergy and elected officials and/or their staffs are recruited to experience a curriculum which empowers participants to implement a community-centered economic development agenda.

## New Models of Workforce Development

Working Partnerships is actively engaged in a sectoral employment initiative as a labor market intermediary through the development of the Temporary Worker's Employment Project. The Project is designed to address the difficulties that temporary workers face in finding employment and maintaining an adequate standard of living. It is also attempting to create a skills standard for contingent workers in the clerical field. The Project is composed of together@work, a membership based organization for contingent employees that provides portable benefits and financial services and solutions@work, an employee-governed staffing company that trains and places clerical workers throughout Silicon Valley. Through these efforts, Working Partnerships plans to design mechanisms to build career ladders across multiple work sites for these individuals. The Temporary Worker Employment Project will be supported by a consumer education campaign to expand the debate over the conditions of employment for contingent workers and develop widely accepted community standards for the temporary help industry.

## The Next Step: A Comprehensive Economic Blueprint

To address the issues raised in this report and the ones detailed in past reports, Working Partnerships has been involved in a multi-year process both to analyze the most critical economic problems that are confronting the Silicon Valley community and to construct a set of proposed institutional responses. Initially, roundtable discussions were held with over 300 organizers, planners, environmentalists, and social service providers to identify issues in healthcare, economic development, neighborhood revitalization, and job training and development within the region. Practical solutions appropriate for local and regional action will be implemented into a Community Economic Blueprint. It is intended that the Blueprint will engage decision-makers on behalf of community organizations throughout Silicon Valley and guide the direction of public policy for years to come.

To find out more about these efforts visit our web site at:
**http://www.atwork.org**

## Economic Policy Institute

The Economic Policy Institute was founded in 1986 to widen the debate about policies to achieve healthy economic growth, prosperity, and opportunity in the difficult new era America has entered. Today, America's economy is threatened by slow growth and increasing inequality. Expanding global competition, changes in the nature of work, and rapid technological advances are altering economic reality. Yet many of our policies, attitudes, and institutions are based on assumptions that no longer reflect real world conditions. Central to the Economic Policy Institute's search for solutions is the exploration of policies that encourage every segment of the American economy (including business, labor, government, universities, and voluntary organizations,) to work cooperatively to raise productivity and living standards for all Americans. Such an undertaking involves a challenge to conventional views of market behavior and a revival of a cooperative relationship between the public and private sectors. With the support of leaders from labor, business, and the foundation world, the institute has sponsored research and public discussion on a wide variety of topics: trade and fiscal policies; trends in wages, incomes, and prices; the causes of the productivity slowdown; labor-market problems; rural and urban policies; inflation; state-level economic development strategies; comparative international economic performance; and studies of the overall health of the U.S. manufacturing sector and of specific key industries.

The institute works with a growing network of innovative economists and other social science researchers in universities and research centers all over the country who are willing to go beyond the conventional wisdom in devising strategies for public policy. Founding scholars of the Institute include Jeff Faux, EPI president; Lester Thurow, Sloan School of Management, MIT; Ray Marshall, former U.S. secretary of labor, professor at the LBJ School of Public Affairs, University of Texas; Barry Bluestone, University of Massachusetts-Boston; Robert Reich, former U.S. secretary of labor; and Robert Kuttner, author, editor of *The American Prospect,* and columnist for *Business Week* and the *Washington Post Writers Group*. For additional information about the Institute, contact EPI at 1660 L Street, NW, Suite 1200, Washington, DC 20036, (202) 775-8810, HTTP://www.EPINET.org

# Endnotes


1 http://www.hotwired.com/special/ene

2 'Melissa' is a pseudonym for one of the people involved in Working Partnerships Temporary Workers Employment Project who preferred that her real name not be used in print.

3 Teixeira, Ruy (1998) Public Opinion on the Economy 1996-1998 (Economic Policy Institute)

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7 Margherios, Lynn et al. (1998) The Emerging Digital Economy (U.S. Department of Commerce: Washington, D.C.)

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9 Including computers, communication equipment, electronic components, and high-tech instruments. (SIC Codes 357, 366-7, 382, 384-7). Data from Center for Continuing Study of the California Economy California Economic Growth 1999 Edition (CCSCE: Palo Alto, CA)

10 The following is primarily from the excellent overview of the State's economy by the Continuing Study of the California Economy: California Economic Growth 1999 Edition (CCSCE: Palo Alto, CA)

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12 Grove, Andrew (1996) Only the Paranoid Survive: How to Exploit the Crisis Points that Challenge Every Company and Career (New York: Currency Doubleday)

13 Data on foreign trade is from the U.S. Bureau of Economic Affairs: http://www.bea.doc.gov

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16 Persky, J. and W. Wiewel (1994) "The Growing Localness of the Global City" Economic Geography Vol. 70, No. 2, 129-143.

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18 see, e.g. Harrison, Bennett (1994) Lean and Mean: The Changing Landscape of Corporate Power in the Age of Flexibility (New York: Basic Books); Storper, Michael (1998) The Regional World: Territorial Development in a Global Economy (New York: Guilford Press)

19 http://commerce.ca.gov/california/economy/neweconomy

20 http://www.pge.com/customer_services/business/ecodev.html#report

21 http://www.ccsce.com

22 Osterman, Paul, ed. (1996) Broken Ladders: Managerial Careers in the New Economy (New York: Oxford University Press)

23 Baumol and Wolff (1998) Side Effects of Progress: How Technological Change Increases the Duration of Unemployment (Annandale-on-Hudson: Jerome Levy Economics Institute) Original data from U.S. Bureau of Labor Statistics, Employment and Earnings (Washington DC: Government Printing Office) Note that these are national figures.

24 Koehler, Gus and Rosa Moller, “Business Capital Needs in California: Designing a Program” California Research Bureau, Sacramento, 1998

25 Belman, Dale, Erica Groshen, David Stevens and Julia Lane (1998) Small Consolation: The Dubious Benefits of Small Business for Job Growth and Wages (Washington DC: Economic Policy Institute)

26 California Work and Health Survey.

27 Brown, Clair, Ben Campbell, and Greg Pinsonneault, 1998. “The Perceived Shortage of High-Tech Workers” Unpublished manuscript.

28 The training requirements for occupations come from the BLS Occupational Employment Statistics, while projected job growth by occupation is generated by the California Employment Development Department.

29 In inflation adjusted 1998 dollars.

30 California Work and Health Survey.

31 Reed, Deborah (1999) California’s Rising Income Inequality: Causes and Concerns (San Francisco: PPIC)

32 Changes in the pattern of wage levels for immigrants in the 1990s seem to have produced this surprising result. Between 1990 and 1997, the share of immigrants in the very lowest decile for male wage earners actually declined, from 50 to 46%. Meanwhile, the share of immigrants in lower-middle income groups increased—to over 60% in the second lowest wage decile, for instance. According to PPIC’s analysis, this could be due to several factors, including: an out-migration of lower-middle income native born workers; a growth of new native workers earning the lowest wages; and changes in immigration patterns resulting in an immigrant workforce with slightly higher education levels and longer time of residence in the state in 1997 than in 1989.

33 State of California, Department of Finance, County Population Projections with Race/Ethnic Detail. Sacramento, California, December 1998.

34 The latest year for which California data was available at time of writing.

35 Note that these figures and in the following paragraphs are for average not median wages. Median wages provide a better indication of wage trends than averages, but the figures associated with union and non-union wages are only available by averages.

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37 There have been various efforts since the New Deal designed to protect workers rights in the workplace. Legislation such as the Civil Rights Act, the Age Discrimination in Employment Act, or the Occupational Safety and Health Act do provide important legal protections for workers. However, their enforcement places a heavy burden on the government, and it has led to a strategy that largely focuses on individual complaints, rather than underlying structural factors. In the absence of effective access to litigation, this approach is largely ineffective for the majority of workers, while failing to address the underlying changes in our economy.

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39 It is also structured in such a way that State UI taxes are based on an individual employer's experience with unemployment—in an effort to create a financial disincentive for employers to lay off workers. It is designed to be self-funding, which is typically taken to mean that funds should be accumulated during periods of economic growth so that they will be available to pay benefits during economic downturns.

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44 See the National Center for Employee Ownership (http://www.nceo.org )

45 The size of each year's dividend is calculated using a formula that takes into account the Fund's performance over the previous five years. Each individual Alaska resident received $1,540.88 from the fund in 1998. See http://www.apfc.org

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49 See e.g. Rowe, Jonathan, and Mark Anielski (1999) The Genuine Progress Indicator, 1998 Update (San Francisco: Redefining Progress)