The Future of Work Initiative is a nonpartisan effort to identify concrete ways to strengthen the social contract in the midst of sweeping changes in the workplace and workforce. The Initiative is focused on two key objectives: first, to advance and protect the economic interests of Americans in the independent workforce, including those in the rapidly growing on-demand economy; and second, to inspire a 21st-century capitalism which rewards work, fuels innovation, and promises a brighter future for businesses and workers alike. The Initiative is driven by the leadership of Honorary Co-Chairs Senator Mark Warner and Purdue University President Mitch Daniels. John Bridgeland and Bruce Reed serve as the Initiative’s Co-Chairs; Conor McKay and Ethan Pollack serve as the Initiative’s Director and Research Manager, respectively. For more information visit as.pn/futureofwork.

FOREWORD

THROUGHOUT OUR HISTORY, the promise of work has held our country together – the promise that anyone willing to work hard and play by the rules should have the chance to go as far as their ability and drive will take them. But for millions of hard-working Americans, our economy no longer seems to live up to that promise – and our political system too often seems to let them down.

Over the past year, we have crisscrossed the country with the Aspen Future of Work team to ask entrepreneurs, workers, thinkers, and civic leaders how to make capitalism work for the American worker and ensure everyone has a stake in America’s success.

These two documents are the culmination of that work. This document, “The Promise of Opportunity and the Future of Work,” describes how technology and global competition have modernized the American economy in many positive ways, but that some changes have also made it harder for Americans to find jobs with the wages, benefits, and skills training to get ahead.

The associated policy agenda, “A Policy Agenda to Restore the Promise of Work,” offers a set of ideas to meet the challenge. It recognizes that policymakers have often responded to the aforementioned trends with regulations meant to protect employees, but this approach can drive up costs and encourage businesses to rely more heavily on contract and contingent work, which in turn provides even less security to workers.

This agenda provides an alternate approach, one that restores the promise of work without stifling innovation. It is a work in progress, and neither one of us endorses every single idea. We offer these ideas in order to start a conversation across sectors and parties about how we can come together to address these common challenges.

The future of work is too uncertain and the pressures of innovation and competition too fierce to expect companies to solve all these problems on their own. Likewise, the 21st century is too complex and the gears of bureaucracy too slow to expect government to solve it all, either. The same entrepreneurial spirit of invention that made American capitalism the engine of economic and social mobility must be brought to envisioning the next stage of capitalism to ensure every American has the chance to get ahead again.

We hope you will join us in rising to this challenge.

Mark R. Warner
United States Senator

Mitch Daniels
President, Purdue University
INTRODUCTION

AMERICA WAS BUILT on the promise of boundless opportunity in reward for hard work. We became the richest, strongest, most optimistic nation by combining the power of initiative, enterprise, and democracy. In the 20th century, that engine of opportunity helped win two world wars, put a man on the moon, and fuel American invention, prosperity, and community.

We built that prosperity with a uniquely American bargain that anyone willing to work hard and play by the rules should have a chance to go as far as their ability would take them. Americans committed their hard work and loyalty, and could count on rising wages, skills training, and economic security in return. This bargain recognized that work is not just a living, but that it gives structure, dignity, and purpose to our lives; and that those who do the work are not a cost of doing business but the wellspring of productivity, creativity, and success.

Most important, this bargain helped create a dynamic, healthy economic climate within which both businesses and workers thrived, resulting in the strongest economy and the strongest middle class the world had ever known. Such a bargain also strengthened the foundation for social prosperity, personal responsibility, civic service, and trust in institutions and one another.

Now, however, the great American bargain is at risk, and so is the middle class it built. While a surge of technology and globalization has made our economy more dynamic, efficient, and competitive, it has raised complex questions about what the economic future may hold for workers. Contracting, outsourcing, and automation can reduce business costs, but they can also have adverse impacts on workers. Policymakers have often responded to these trends by using regulations to protect employees, but this approach can have the adverse effect of encouraging businesses to rely more heavily on contract and contingent work, which in turn provide even less security to workers.

Millions of Americans are fed up with an economy and a political system that too often lets them down. Americans long for a new vision of the American bargain that can keep its promise once again. More is at stake than just employment levels, cheaper consumer goods, and the strength of our economy. A new bargain is required to ensure the success of America’s free enterprise system and civic health.

Together we must summon American ingenuity and common purpose to restore the promise of America for a new century. Once more, we find ourselves at the crossroads that has always defined our character as a nation – whether to fear the future, or muster the courage to shape it.

Some say we must restrict innovation and trade – and that we must use the coercive power of regulation to force businesses to revert to the economic models of the past – in order to recapture the economic prosperity, security, and upward mobility of previous generations.
We believe this is a false choice. America must embrace the realities of the modern economy, not deny or attempt to circumvent them.

The purpose of the Aspen Institute Initiative on the Future of Work is to propose a new course – a way to upgrade America’s economic reward structure to keep pace with the shifting realities of the 21st century. As we did in the last century, we must come together to forge a new economic model that fuels innovation, rewards work, and promises a brighter future for businesses and workers alike, for the sake of our economy and democracy.

The foundations of this new economic model lead us to some basic principles. We need new incentives and new ways of doing business that reward workers, entrepreneurs, and investors together. Workers deserve a say and a stake in the companies they help build, and a chance to get better at the hard work they do. Businesses deserve the freedom to take the long view and the confidence that when their workers do well, their enterprises will too. Society deserves civic and business leaders who will seek to make innovation a force for good and steer the future of work toward widespread growth and prosperity, and not overly concentrated returns.

A great nation rewards those principles and practices that it values and creates the future that it wants to see. The nature of work may be changing, but the value of work has not. The future of work relies on our ability to design new arrangements to ensure that the promise of opportunity keeps up with the pace of change.

A New Capitalism can lead to a more productive economy, more successful businesses, give all Americans the chance to get ahead, and strengthen our democratic institutions. We believe such a model is not only possible in today’s polarized political climate, but that it has the potential to bring our divided nation together.

This project is a work in progress. We want to raise these challenging issues and foster a debate across sectors and parties to work together to address them. We propose various ideas to deepen that debate and sharpen our analysis. We don’t have all of the answers, but we have a strong belief that without addressing these questions, America’s prosperity will remain at risk. In that spirit, we put forward the notion of New Capitalism in beta version. Over the past year, we have crisscrossed the country to talk with and collect ideas from entrepreneurs, investors, managers, and workers, as well as civic, academic, business, and labor leaders.

The message was clear: the challenges are great and the opportunities diverse, there is no silver bullet, and the solutions must be as broad as they are bold. Our prospective policy agenda, attached to this narrative, therefore relies on four separate approaches: realigning business incentives, strengthening public information, reforming corporate governance, and empowering workers:

**Rewarding Businesses for Rewarding Work:** Over the past several decades, while competition and innovation have pressured businesses to reduce the cost of labor, policymakers have been focused on creating incentives for investments in physical capital, but not human capital. In fact, although labor and training costs are considered expenses and therefore not taxed, the combination of accelerated depreciation and the tax exemption of...
debt financing has led to negative effective tax rates on physical capital investment for many industries. As we seek comprehensive tax reform that broadens the base, lowers rates, and simplifies the code, policymakers should also focus on creating a tax and regulatory structure that encourages businesses to reward and invest in the workforce.

**Arming Consumers, Workers, and Investors with the Power of Information:** Consumers have the power to reinforce their values through the companies they choose to patronize; workers through the places they choose to work; and investors through the businesses or savings vehicles they choose to purchase. That power is surging: technology makes it easier for consumers and workers to make informed decisions; Millennials, who represent a growing share of consumer purchasing power, are more likely to incorporate their values into decisions about what they buy or where they work than previous generations; and investors are increasingly taking social impact into account as they seek financial returns. By providing consumers, workers, and investors with greater information about how well companies pay, train, and schedule their employees, we can empower the market itself to promote a better future of work.

**Giving Everyone a Stake in Prosperity:** Real, durable growth requires making decisions with a long-term perspective. Policies that give everyone – investors, managers, and workers – a greater stake in a company’s future will make it easier for leaders to take the long view and improve the performance of what should be a mutual enterprise. These proposals encourage worker ownership and involvement in governance, promote long-term shareholding, and dissuade management from succumbing to the pressure to focus only on the short-term.

**Empowering Workers to Make the Most of Their Potential:** Just as it is important to encourage businesses to reward and invest in their workforce, workers should also have more control over their professional lives. These proposals seek to empower workers by providing them with the tools to improve, the security to persist, the flexibility to make the most of their lives, and the opportunity to get ahead.

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4 While outside the scope of this project, we recognize that uncertainty of government policies can also inhibit such longer-term planning and investment.
THE SOCIAL CONTRACT

IN THE 1950s, when workers planned their future around a single company and line of work, leaders of business, labor, and government built a safety net of health and retirement benefits around an individual’s employer. The Treaty of Detroit, for example, protected automakers from annual strikes and provided workers health, unemployment, vacation, and pension benefits. This agreement between companies and unions would become a model for other industries, and the economy as a whole: in return for their hard work and loyalty, workers could count on safe working conditions, health and retirement plans, anti-discrimination protections, and other protections and benefits. The strength of our economy went hand-in-hand with the strength of our civic institutions, which saw continued growth in the indicators of our civic health from WWII until the 1960s.

In recent decades, that bargain has begun to come apart for our economy and society alike. Many businesses have responded to innovation and global competition by replacing in-house operations with contracting, outsourcing, franchises, and on-demand work, often leading to less benefit coverage, lower wages, or both. Meanwhile, capital markets and activist investors have intensified pressure on corporate leaders to deliver short-term profits, which can come at the expense of investment in their workforce and longer-term productivity in their enterprises.

These trends – technology- and trade-driven firm segmentation on the one hand, and short-termism on the other – are undermining the social contract between workers and business. When businesses reward shareholders with higher dividends and stock buybacks, less cash is left over to reward workers. Many businesses are no longer providing the same robust portfolio of benefits and investment in training and skills development that they once did. While shareholders and management reap their rewards, workers are experiencing less wage growth, less security, and less upward mobility.

Disruptions to the Firm Structure

Disruptions to traditional employment caused by on-demand platform companies represent just the latest stage in a process of the disintegration of the firm as an organizing structure for economic activity. In many respects, the future of work is nothing new.

The American business landscape was relatively stable between the 1930s and 1970s, with many of the same companies continuing to dominate over many business cycles. By focusing largely on growth rather than profitability, these companies grew into conglomerates that spanned multiple industries. Beginning in the 1980s, a combination of regulatory and legal changes, along with shareholder pressures, led large corporations to break up into smaller firms more focused on specific industries.10

This horizontal disintegration was soon coupled with vertical disintegration, as firms increasingly found it economical to contract work out to other companies for non-core functions rather than building and maintaining the productive capacity internally, which can be costly. Firms retained the activities central to their competitive strategy but shed activities to reduce costs, increase flexibility, and shift liabilities.11 12

A good example of this transformation is in the hospitality industry. A half century ago, the industry operated under a traditional model: the company with its name on the side of the building also owned the building and employed the people that worked in it. But over the last few decades, a new model has emerged, where the lead company contracts with different franchises that each manage their own location and own their own building, vehicles, and equipment. In 1962, only 2 percent of motels were franchised; by 1987, that figure rose to 64 percent, and today it is over 80 percent.13 Marriott, Hilton, and other hotels now offer their “brand” to other companies with whom they contract the actual operations of the hotels.

Innovation in information and communications technology has not been the sole driver of this trend, but it has played a significant and growing role. One of the core functions of a firm as an organization is to solve problems like reducing transactions costs and managing principal-agent challenges. But over the last few decades, information and communications technology increasingly solve these problems as well, allowing firms to contract jobs out instead of creating jobs in-house.

13 Weil 2014. pg. 146.
For example, a key obstacle to contracting out work is that it can be difficult to establish a fair price for the good or service that would otherwise be produced internally. This process generally involves searching for vendors and negotiating prices, which can be costly and time-consuming. But as online marketplaces emerge, this process becomes significantly more manageable, fueling additional contracting and outsourcing.

Globalization also plays a role in disrupting the structure of the firm. By providing access to the global labor supply, businesses can more easily contract with suppliers overseas rather than produce in-house. This phenomenon is also accelerated by technological innovation, which makes more services tradable, allowing them to be offshored as well.

More recently, technology has now progressed to the point that in some industries, employment itself can be replaced with an online platform to onboard, schedule, and supervise workers without a traditional stable employment relationship. While the use of contract and contingent labor is not new and remains a modest share of the total economy, evidence suggests that the movement toward alternative work arrangements has accelerated in recent years:

- A 2014 Oxford Economics survey of 2,700 business executives found that 83 percent of executives say they are increasing their reliance on consultants, intermittent employees, or contingent workers.

- A 2016 survey of hiring managers sponsored by the Markle Foundation, the Aspen Institute’s Future of Work Initiative, Burson-Marsteller, and TIME found that 57 percent of companies who report using contract labor today expect to rely more heavily on them over the next five years, with only 31 percent saying they will rely less on such workers.

- Over the last 15 years, the number of 1099-MISC forms – the tax form that independent contractors used to file their taxes – issued by the IRS has risen by 22 percent, while W-2 forms – filed by traditional employees – has fallen slightly (see Figure A).

- A recent study by economists Lawrence Katz and Alan Krueger found that all of the net employment growth from 2005 to 2015 can be accounted for by the increase in alternative work arrangements.


This trend has affected more than just traditionally low-wage work, but also manufacturing, which has historically been characterized by well-paying jobs that provided “a ladder to the middle class.” Between 1989 and 2014, the share of frontline manufacturing production jobs employed by third party staffing agencies rose from 1 percent to 9 percent.

Labor regulations have also played a role in accelerating this trend towards greater reliance on contingent work. Regardless of their overall merits, regulations like the minimum wage, overtime, workers’ compensation, unemployment insurance, leave policies, and workplace safety can raise the cost and decrease the flexibility of formal, full-time employment, thus encouraging businesses to rely more heavily on contract and contingent work which are not covered by these regulations. Perversely, these arrangements provide even less security to workers. The U.S. Department of Labor’s revised overtime rule – which would expand overtime coverage to 5 million more workers – is a recent example of policy that may lead businesses to substitute contract and contingent workers for formal W-2 employment. Additionally, the Affordable Care Act’s employer mandate encourages businesses to move full-time workers to part-time, making them less likely to be the targets of training investment.


Disruptions to Workers

This growing reliance on outsourcing and contracting has had a significant impact on workers. While limited data in the U.S. makes it difficult to quantify this effect across all industries, evidence from other countries and from specific domestic industries strongly suggests that moving workers outside of the firm’s boundaries generally leads to lower wages and reduced benefits.26 27 28

For example, Goldschmidt and Schmieder (2015) examined German data and found that outsourcing caused wages to fall by 10 to 15 percent.29 Studies of specific U.S. industries have had similar findings: outsourcing lowered wages by 27 percent for manufacturing jobs (Jacobs, Perla, Perry, Graham-Squire 2016); by 4 to 7 percent for janitors and by 8 to 24 percent for guards (Dube and Kaplan 2010); by 30 percent for port trucking and 40 percent for agriculture workers (Ruckelshaus, Smith, Leberstein, and Cho 2014). Studies of call center workers found that outsourcing reduces wages by roughly 8 percent, and also leads to less benefits and more turnover (Batt, Holman, and Holtgrewe 2009; Batt, Nohara, and Kwon 2010)29 31 32 33 34 35.

This is in part because the firm itself appears to have a moderating effect on compensation inequality – fairness concerns on the part of employees prevent the disparity between low- and high-wage workers from growing too large.26 27 28 But these fairness concerns tend not to exceed the boundaries of the firm. So as businesses contract out low-wage work such as customer service, the wages and benefits for these jobs often fall. Moreover, as contracting out has become more common, technologies have allowed more services to be provided

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overseas, where there can be fewer worker and environmental protections and labor is less expensive. This competition puts additional downward pressure on wages.\textsuperscript{39}

This can also lead to less investment in the workforce. Traditionally, low-wage workers in large, vertically-integrated companies are provided more career pathways, and therefore the company has an interest in investing in its workforce to cultivate internal talent. But when those low-wage administrative jobs are outsourced, they can end up working for smaller specialized contracting firms that have to vigorously compete by cutting costs, including training (and wages and benefits).\textsuperscript{40} These flatter firms also tend to exhibit fewer career pathways, lowering the incentive for training.\textsuperscript{41} For example, Batt et al (2009) found that subcontracted call-centers invested 50 percent less in entry training than in-house centers.\textsuperscript{42}

Disruptions to the firm structure have also been leading to a decline in labor union power. For decades, unions successfully pressured businesses to share the firm’s prosperity with workers in the form of higher wages, benefits, and training investments. Contracting out and outsourcing have contributed to the decline in union power by replacing union workers with non-union workers. Workers have lost their voice in corporate governance.

**Rising Pressure for Short-Term Returns**

The decline of the firm structure has also coincided with a rise in investor power. Prior to the 1980s, large corporations were characterized by powerful executives and strong labor unions, with investors playing a mostly passive role. But this dynamic shifted in the 1980s as investors began to assert their power over management by demanding higher returns on their capital, and executives and board members themselves increasingly were compensated with stock in the company. Capital became less “patient” as the average holding period fell from about eight years in the 1960s to just four months by 2012.\textsuperscript{43}

This new pressure from investors had two effects. First, it pushed managers to focus their business on “core competencies,” contributing, along with technological innovation and global trade, to the aforementioned devolution of the firm structure into smaller, more specialized units.

Second, it caused managers to reallocate resources within the company. While managers had previously been given the freedom to allocate growing profits between investors, the workforce, and reinvestment back into the company, investors were now demanding a greater share of these profits be returned to them.

Generally, business management has relented to these pressures. For years, businesses had consistently paid about half of their profits to investors and retained the other half.


\textsuperscript{40} Waddoups 2016. “Did Employers in the United States Back Away from Skills Training during the Early 2000s?” ILR Review March 2016 vol. 69 no. 2 405-434. http://ilr.sagepub.com/content/69/2/405


within the company. But starting in the 1980s, investor payouts – including both dividends and stock buybacks – have on average consumed 90% of profits. In recent years, payouts to investors have actually exceeded profits (see Figure B).\(^{44}\)

**Figure B. Profits, Investments, and Payouts: Publicly Traded Companies**

Starting in the 1980s, investor payouts – including both dividends and stock buybacks – have on average consumed 90% of profits. In recent years, payouts to investors have actually exceeded profits.

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**Short-termism Squeezes Workers**

This emphasis on rewarding investors has had a dramatic effect on worker pay and benefits. For nearly 50 years, worker income remained a steady share of total national income. But in the last few decades, and most notably in the last fifteen years, that share has fallen significantly.\(^{45}\) As investors demanded more, workers got less.

Short-termist pressures have also impacted businesses’ ability to make long-run investments.\(^{46}\) In a letter to fellow chief executives, the CEO of BlackRock Lawrence Fink lamented the influence of “investors focused on maximizing near-term profit at the expense of long-term value.”\(^{47}\) Investments in human capital – such as workforce training – are particularly disadvantaged by short-termism for two reasons. First, their accounting treatment is the same as immediate expenses, but much of their value is hard to measure and spread over many years.\(^{48}\) \(^{49}\) And second, unlike physical capital and R&D investments that are reported

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in Form 10-K to the SEC each year, there is no standardized way to report training investments to investors, so capital markets have a difficult time discerning between businesses investing in their workforces and businesses with high expense levels.

Certainly, there are shareholders who are willing to sacrifice current profits to fund investments that raise a business’s long-run profitability. For example, institutional investors like pension funds and insurance companies, which represent about 20 percent of equity ownership, operate on a longer-term horizon. But even these investors might punish companies who engage in long-term investments. If firms with ample investment opportunities stay private because they know the public capital markets favor short-term profits over investments, there would be a perception that the remaining public companies lack investment opportunities. Under this scenario, even the most patient investors would be unlikely to tolerate heavy investment.

This has led to a management culture that is biased against long-run value creation. For example, a survey of 400 Chief Financial Officers found that a majority would avoid making an investment with a positive net present value if doing so would cause the company to fall short of its current quarterly consensus earnings. The intense focus on the short-run has likely contributed to a decline in business investment.

The decline of union power also accelerated this trend. Unions often pushed for internal labor markets that focused on training and cultivating internal talent. But as investors gained and unions lost power within corporate governance, businesses had a freer hand to hire already-trained external candidates, often leading to fewer within-firm career pathways and higher turnover. This in turn created a disincentive for training investments.

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PROBLEMS

THESE TWO TRENDS - technology- and trade-driven firm segmentation on the one hand, and short-termism on the other - are undermining the social contract between workers and business, leaving workers with less pay, greater economic insecurity, and fewer opportunities for skills training.

Stagnating Worker Pay and Benefits

For most of the post-war period through the 1970s, productivity and real hourly worker compensation – which includes wages and benefits – rose together. This reflected an implicit agreement: as businesses became more successful, workers and owners together shared in the prosperity. The bargain recognized that workers were not just a cost, but an asset that made the company profitable.

But as businesses were pressured to cut their costs by contracting out, and as more and more profits were diverted to shareholders, productivity and worker compensation diverged, with productivity continuing to rise but real hourly compensation stagnating. This is true even for workers with a college degree. Stagnating wages are only a part of the story. Employment benefits – such as retirement and health insurance – have historically provided workers with much-needed economic security. But over the last few decades, businesses have provided their workers with fewer and fewer benefits. According to Census data, between 1979 and today, employer-provided retirement coverage has declined from over half of workers to 42 percent, and health insurance has declined from 70 percent to just over half.

Moreover, businesses are phasing out defined benefit retirement plans, in which the business assumes the risk of longevity, replacing them with plans like 401(k)s, a form of personal savings that does not provide the same level of retirement security. Today, businesses provide defined benefit plans to less than a fifth of their workers, down from over a third in the early 1990s.

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59 We cannot attribute all the decline in employer-provided health coverage to the changing relationship between businesses and employees, as rising health care costs have undoubtedly also played a role.

The decline in worker benefits – dubbed in 2006 by Jacob Hacker as “The Great Risk Shift” – has forced workers to rely more on personal savings to shield them from the ups and downs of the economy. But unfortunately, personal savings has also fallen: the average household’s net worth fell by over $14,000 between 1983 and 2013.

**Workforce Disinvestment**

The twin trends of firm segmentation and short-termism have also led to businesses investing less in their workforce. Since the mid-1990’s, the percent of workers that received employer-sponsored or on-the-job training fell by 42 percent and 36 percent, respectively (see Figure C). Over the last decade, businesses spending on training as a share of the economy was cut in half. This decline in training was widespread, across industries, occupations, and demographic groups. Over this same time period, formal programs that combine on-the-job learning with mentorships and classroom education – generally considered to be the most effective programs – have fallen by 40 percent. A recent Accenture survey shows that only one in five workers received employer-provided training in the last five years. Moreover, many low- and middle-wage workers do not benefit from existing training investments because businesses disproportionately direct their training expenditures to the highest-paid and highest-educated workers. This is because, according to a report from the Hitachi Foundation, training investments are often managed as worker benefits – which themselves are skewed towards higher-paid workers – rather than workforce development investments designed to achieve specific business objectives.

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Have Worker Preferences Changed?

Employers are increasingly reliant on contract work rather than traditional employment relationships, and they aren’t investing as much in their workers. But might this simply be a response to changing worker preferences?

For example, if workers are increasingly valuing alternative work arrangements – which, given the rise of dual-earning households, is certainly possible – then employers may simply be accommodating them.\(^{70}\) And if workers prefer to move from job to job, training investments won’t be profitable to companies. In fact, if the trained worker quickly takes a job with a competitor, the investment may end up hurting the company in the long run.

But it may also be true that businesses are simply focused on short-term cost-cutting. By using contingent work rather than traditional employment, employers can reduce payroll costs by as much as 30 percent, and gain more flexibility by shifting fixed labor costs to variable costs.\(^{71}\) \(^{72}\) While our recent survey with TIME and Burson-Marsteller found that 43 percent of on-demand workers like the independence and flexibility of their new work arrangements, nearly as many (41 percent) would prefer the security and benefits of working

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Since the mid-1990’s, the percent of workers that received employer-sponsored or on-the-job training fell by 42 percent and 36 percent, respectively.

![Figure C. Percent of Workers Receiving Employer-Sponsored or On-the-Job Training, 1996-2008](image-url)
for traditional companies with less flexibility. Moreover, declining employer-provided training fits with the broader trend of businesses being more focused on short-run profits and forgoing long-run investment.

It does appear that private job tenure has been falling for the last few decades. This may be driven by changing worker preferences, but it may also be that as businesses invest less in their workforce, workers are forced to switch jobs more frequently as the only remaining option to advance their career. The decline of labor unions may have also played a role: as previously noted, unions often reinforced training-intensive internal labor markets and advocated for higher levels of worker training.

The role that shifting worker preferences plays in these employment and training trends deserves further research. But the findings of this report are not sensitive to this research question: no matter the cause, greater economic insecurity and falling employer-provided training have significant consequences for the American economy.

CONSEQUENCES

STAGNANT WAGES, ECONOMIC INSECURITY, and worker disinvestment affect us all. Economic growth does not exist in a vacuum. Rather, it is the product of a broader economic ecosystem where workers have ample training opportunities and thus where businesses have access to a well-trained labor force; where businesses can invest in the long-run, and thus where workers and shareholders alike benefit from training and higher long-run productivity growth; where workers experience rising wages, and thus where businesses have a stable base of demand; where workers have the potential for upward mobility, and thus businesses have access to a pool of workers shaped less by the luck of their birth and more by intelligence and hard work. These effects all combine to create a virtuous cycle that benefits everyone.

For example, stagnant wages and greater economic insecurity have led to falling living

75 Some have noted that the raw BLS data actually suggests that tenure is in fact not falling. However, there are three points to keep in mind. First, the job tenure trends in the BLS data appear sensitive to changes in aggregation method – for example, the Atlanta Fed re-aggregated the data by birth year instead of survey year, and found that tenure was actually falling among all age groups over time. Second, a study by Henry Farber at Princeton University explains that it is important to focus narrowly on private sector tenure, which has fallen, rather than including public sector tenure, which has risen. And finally, the BLS data do show that tenure is falling for male and never-married female workers, but that married female tenure has risen, which offsets the male decline. A study for the American Sociological Review found that married female job tenure has risen is because childbirth is no longer as disruptive to a career as it once was. This suggests that worker tenure declines among male and never-married women are indicative of a broader labor market instability, but this is somewhat masked in the data by the separate trend of the changing norms and policies surrounding women in the workplace. Atlanta Fed analysis: http://macroblog.typepad.com/macroblog/2015/06/falling-job-tenure-its-not-just-about-millennials.html
Married female tenure report: http://asr.sagepub.com/content/79/7/159.abstract
standards for many Americans. This violates one of the fundamental tenets of American society: that each generation can aspire to be better off than the one before it. This has been true for most of this country’s history, but it is currently in danger. As Robert Putnam methodically catalogues in his book, Our Kids: The American Dream in Crisis, a disturbing “opportunity gap” has emerged between children from “have” and “have not” families, and this generation is not likely to do better than their parents in terms of economic mobility.76

But stagnant wages and economic insecurity are also bad for the overall economy. Consumer spending represents 70 percent of GDP; as a result, economic growth depends in part on strong and stable consumer demand, most of which is generated by workers.77 Stagnant wages and greater economic insecurity thus lead to weaker and more volatile demand.

This makes the economy less resilient. While the economy’s productive capacity (along with the growth of the labor pool) determines the long-run economic growth trajectory, strong consumer demand is often necessary to pull the economy out of recession. Reports from both S&P and Morgan Stanley point to wage stagnation as one reason why the latest economic recovery has been so anemic.78 If these trends continue, the next recovery may be anemic as well.

Wage stagnation and fewer employer-provided benefits also mean that more workers will become more reliant on public safety net programs, with a hefty cost paid by the taxpayer. About a quarter of wage-earners already receive benefits from one or more social safety net programs.79 In fact, there are reports of managers of low-wage workers actively encouraging their workers to supplement their meager wages with public assistance benefits.80 This pushes costs onto taxpayers: for example, a $1 per hour reduction in wages for the bottom 40 percent of workers would increase the participation rate in public assistance programs by 2.5 percentage points, and public expenditures would rise by $7.3 billion annually.81 This leads to higher taxes, reductions in public investments, cuts to the social safety net, or higher debt. Each of these options can have negative effects on the economy.

Fewer workforce investments are another area that threatens the broader economic ecosystem. There is a significant body of research on the importance of human capital to eco-


77 Arithmetically, this is true: over the last ten years, GDP has averaged $15.6 trillion while consumer spending has averaged $10.6 trillion, making consumer spending 68 percent of GDP. But some economists point out that a portion of this consumer spending is on imports, which are not counted in GDP (imports are subtracted from exports to get net exports); in other words, if this spending isn’t counted in the numerator, it shouldn’t be counted in the denominator either. BLS economists Carl Chentrens and Arthur Andersen calculated that excluding consumer spending on imports results in it constituting roughly 60% of GDP – still enough to play a significant role in economic growth.


81 The $7.3 billion calculation was made by multiplying the $178 annual change in benefits by the 40.7 million workers in the bottom four deciles (Table 3). http://www.epi.org/publication/wages-and-transfers
Investments in human capital boost economic growth in two ways: by making workers more productive and by spurring innovation and technological adoption.

The traditional education system is an important source of human capital investments, as are parents, friends, family, and the community. But the most important source of job-related skills is often businesses themselves. Increasingly, however, businesses are trying to hire already-trained workers from elsewhere rather than training low-skill workers for the job themselves.\(^{85}\)

If only a few employers took this approach to talent acquisition, the economic impacts would be minimal. But in the aggregate, the damage to the economy can be significant. There is evidence that a shortage of “middle-skill” employees is already undermining U.S. competitiveness.\(^{86}\) This skills gap is caused in part by a failure of our educational and workforce systems to provide better pathways from school to employment, with the education, training, and credentials that could ensure Americans can fill the jobs of today and the future. But it is also caused by the simple fact that businesses are increasingly reluctant to help their employees acquire skills.\(^{87}\)

Education and skills acquisition is also an important vehicle for upward mobility. The most common way for workers to rise up the income ladder is by continuing to acquire skills, thus becoming more productive and justifying a bigger paycheck. In fact, the relationship between skills and wages has grown stronger over time, suggesting that it is becoming more difficult to rise without skills training.\(^{88}\)

The result is that businesses have a less-valuable workforce upon which to draw. Employers are by far the largest source of skills training, so a decline in training investments leads directly to a less skilled workforce. And less upward mobility means that workers with exceptional natural ability are less likely to rise to be identified, depriving businesses of their services. The economic ecosystem becomes less resilient, dynamic, and skilled, and we all suffer.

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WE BELIEVE A NEW COURSE IS NECESSARY for three simple reasons: First, the forces of innovation and competition are more likely to intensify than ameliorate the economic pressures on the average worker. Second, companies are increasingly responsive to short-term pressures from investors. Third, the failure to shore up democratic capitalism poses grave dangers to democracy and capitalism alike.

But the future of work is too uncertain and the pressures of innovation and competition too fierce to expect companies to solve all these problems on their own. Likewise, the 21st century is far too complex and the gears of bureaucracy far too slow to expect government to solve it, either. But workers, industry, and government have a common interest in getting the incentives right.

The goal of the accompanying policy agenda is to inspire a new model of capitalism that works for everyone. Our policy agenda relies on four separate approaches: realigning business incentives, strengthening public information, reforming corporate governance, and empowering workers. Like any broad agenda, no one stakeholder will love every proposal – but a new bargain must be built on the promise of collaboration, shared purpose, and the courage to be bold.
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