

BUILDING A MORAL ECONOMY

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In the context of the Presidential election campaign, Keystone Research Center (KRC) in 2008 published the attached draft speech on the economy for the Presidential candidates. The speech outlined KRC's views of the kinds of policies needed to restore broadly shared prosperity in America for the long term.

*The **Keystone Research Center** is a nonprofit, nonpartisan research organization that promotes a more prosperous and equitable Pennsylvania economy.*

Building A Moral Economy

The 2008 U.S. Presidential campaign has been marked by some of the most honest, and deepest, discussion in American political history. But unfortunately, on the issue that voters now rank as the most important, the campaign debate has not gone far enough. We still must have a deeper discussion about the challenges facing the American economy and how to address those challenges.

The goal of my speech today is raise the level of debate on the economy—and to offer Americans a clear picture of how the policies of my administration will restore opportunity and security for working families.

It is well past time in America to talk directly about the economic challenges faced by America and its families and about the solutions to those challenges.

Too often, we do not acknowledge the strength of the forces driving the astonishing inequities in our economy, in this decade and in the last third of a century.

Too often, the solutions we offer—even if they were enacted—are not on the scale necessary to create anew an economy that works for all.

Too often, the solutions we offer are a list of disconnected campaign treats. Their whole is not just less than the sum of their parts—there is no whole, no conviction that there is really a different path that our economy might travel down. Americans sense that hollowness. It feeds cynicism. It feeds hopelessness. It undercuts the chance for real change.

So today, I want to be honest about problems and honest about solutions. And I want to tell a story of the economic renewal that might be if we make the right decisions in the next few years.

The story I want to tell is about the future but it starts in the past. America and Pennsylvania flourished in the post-World War II decades. With nearly half of the state's jobs in the manufacturing sector at one point, Pennsylvania families enjoyed one of the nation's highest living standards. This economy delivered in ways that people experienced every day—cars, bigger homes, basic health care, the ability to support a family on one income, comfortable retirement after 30 years in the factory.

But then this broadly shared prosperity began to unravel. Mining jobs disappeared first from the anthracite coal region, then apparel from Philadelphia and Reading, then steel from the Lehigh Valley and the Pittsburgh region. At the beginning of Ronald Reagan's first term, the final nails went in the coffin of the U.S. and Pennsylvania New Deal economy. This story is well known, but the grim economic statistics remain stunning.

- From 1979 to 1989, annual earnings for working men in Pennsylvania with a high-school education or less plunged from over \$35,000 (in today's dollars) to about \$30,000, where they remain stuck today.

- In the Pittsburgh area, income levels plummeted even more. In a few, traumatic years in the 1980s, Southwest Pennsylvania went from having the state's highest wages to below the statewide average.
- In many rural Pennsylvania families, dependent on one or two factories, also suffered grievously. Unemployment in the early 1980s in rural Pennsylvania peaked at a near-depression-era 17%.
- While some politicians exploited this free fall to fuel the resentment of white men about affirmative action, a huge number of black men also worked in these steel mills and other factories, and the New Deal's collapse dealt them and their families a crippling blow
 - African-American men in Pennsylvania with a high-school degree or less saw their earnings plunge from \$32,000 in 1979 to \$22,500 in 2007.
- Women workers did gain some ground, but partly because men were losing ground. Women's gains also slowed in the 1990s. Even in 2007 in Pennsylvania, women earned nearly \$4 per hour less than male workers—about \$8,000 dollars per year if they work full-time.
- In this decade things are getting worse.
 - Even college educated Pennsylvania workers have started losing ground—by \$2 per hour, or about \$4,000 per year, since 2001; and
 - An astonishing 79% of the increases in Pennsylvania personal income between 2001 and 2005 went to the top 1% of earners—the very wealthiest people in the state.
- Today, the overwhelming majority of Pennsylvanians are not sharing in economic growth—a fact that was true even *before* the housing bubble burst and the economy started slipping into recession.

The economic strains faced by working families—black and white, rural and city, white collar and blue collar, U.S.-born and immigrant—help explain the tensions that sometimes flare among Americans, tensions fanned by those who would divide and conquer, who would hold fast to economic policies that have left most Americans behind. What we need instead is economics policies that would unite all Americans and strengthen our nation to confront the challenges of globalization and global warming. We need economic policies that will reproduce in new conditions what the New Deal accomplished in the 1930s—that makes our economy more powerful than ever and that builds up rather than savages our workers, our families, our communities, our nation. In short, we need a *moral* economy.

The challenges of the past three decades resulted because, looking back, we took the wrong tack in the 1970s in response to the combination of high inflation and high unemployment labeled stagflation. America concluded that the problem then was regulation, in general, not just the need to update some of the outmoded structures of the New Deal in the face of new challenges. Instead of a

pragmatic debate about reforms that might reinvigorate our economy, in the early 1980s we took a meat cleaver to New Deal institutions.

In the labor market, instead of increasing the purchasing power of the minimum wage every year, we began to reduce it

Instead of honoring the right to form a union, President Reagan opened the door to employer intimidation—such as threats to close factories and move them to Mexico—that has now lowered our private unionization rate to less than 1 in every 10 workers.

In individual industries—trucking, airlines, telecommunications, and later electric utilities—we took the same blunt approach, accommodating business and technological pressure for deregulation without regard to the impact on jobs, families, economic security.

Internationally, we used free trade agreements to grease the global flow of goods, investment, and services across national borders, with little consideration of its impact on opportunity and security at home or abroad.

Overall, national policy accelerated the destruction of the good jobs in the old economy, but without considering where the good jobs of the future would come from. The destruction of families and communities that resulted were not a surprise. They were the predictable result of our national policies.

We need different national policies to get a different result. We need policies that free the creative forces of the market, but don't use the market as a veil to excuse greed. We need to recognize that we've got a common stake in each other's prosperity: we are still, in a global economy, in it together.

We cannot turn back the clock and Americans understand that. The American economy does not stand still, and neither can the rules that govern it or the institutions that support it. The evolution of markets, of technology, of industries often warrants regulatory reform and new policies: to foster competition that will lower prices and lead to new products and services; to replace outdated oversight structures in our financial industries and mortgage market; and to update labor market protections governing workplace health and safety, other labor standards, and the right to join a union. But instead of modernizing regulations and institutions—and establishing a 21st century regulatory framework—we have dismantled them. And American and Pennsylvania working families have paid the price.

American working families know that we need an economy that is competitive, in which businesses thrive—they are pragmatic. But working families also want an economy that respects American values rather than undercuts them—that delivers a fair day's work for a fair's pay and health care for all, that bolsters families and communities, and that honors the belief that all Americans can rise to the top of our society no matter the station of their parents—a moral economy.

American families have not forgotten—even if many economists have—that the market is a means and not an end in itself. When the market supports our ends—higher living standards, cleaner production processes—we should embrace it. When the market undermines our ends—chewing up families, fueling inequality and social division, destroying our environment—we must modify the rules and institutions until the market once again supports our ends.

Before I outline how we can rise to the challenge of creating anew a moral economy, I want to make more explicit the roots of economic insecurity in America today. This is based on the simple idea that the right prescription requires diagnosis. To rebuild security and opportunity, we need to know what undercut them. So what are the roots of economic anxiety today, in common sense terms?

- We have too many low-wage jobs, many of them disconnected from any career paths to better jobs.
- We have lost much of the security and upward mobility provided in one-company careers, but we have not adequately strengthened new approaches to providing security and career opportunities in a more mobile economy.
- Too many U.S. companies compete based on keeping wages and benefits low, in part because they sell in commodity or low-quality service markets with intense price and cost pressure.
- Lastly, the U.S. does not invest enough in the future—in traditional infrastructure, such as road, bridges, and transportation; in telecommunications infrastructure; in human capital—21st century skills; in research and innovation; in the industries of the future.

In outlining how we might address these roots of economic anxiety, and rebuild a moral economy, I will draw heavily on Pennsylvania examples. Pennsylvania today is a living, breathing “laboratory of democracy,” experimenting with new approaches that, scaled up, could generate broadly shared prosperity. For me, and I hope for you, the concrete examples I will use bring to life the abstract idea of a moral economy and strengthen the conviction that in this state, and in this nation, at this time, we can renew the promise of opportunity in America. You need a national economic policy that translates the energy and imagination of Pennsylvanians—and of all Americans—into opportunity and security, a roadmap for the future that can restore faith and hope in the American Dream, for working families today, and for generations to come.

What are key elements of our moral economy?

A Moral Economy, Part 1—New Skills and Careers for a New Economy. To build a strong economy we must invest more in our workforce so that businesses have the skilled workforce they need to create good jobs and so that more young people and working adults can gain and keep up-to-date the skills that they need for 21st century jobs. Pennsylvania provides a model for how to do this.

Since 2005, Pennsylvania has created a network of some 90 training partnerships linked with key regional industries—advanced manufacturing, the bio-medical industry, health care, information and communication services, construction, agriculture and food processing, energy, and others.

The day-to-day work of industry training partnerships is to identify skill gaps and training needs common to many companies. Industry training partnerships make education and training more cost-effective and fine-tune it to the specific needs of businesses and workers. Since 2005-06, over 6,000 companies have participated in training overseen by industry partnerships, nearly half of which did not have any organized training programs previously. These training programs have helped to improve the efficiency, skill levels, and wages of their employees.

If you step back from the day-to-day work of Pennsylvania's training partnerships with key industries, you can see that they are beginning to plug a gaping hole in our economy's institutional infrastructure. In our old, manufacturing-based economy, blue-collar workers went to high school and then landed jobs for life in big, stable companies. White-collar workers went to college and then landed jobs for life in big, stable companies. Neither workers nor companies needed learning and security structures beyond education at the start of life. That old world is gone.

Both businesses and workers today need stronger institutions outside individual companies that support lifelong learning and career transitions. Pennsylvania's new industry training partnerships are beginning to create these missing institutions.

Other states now look to Pennsylvania to learn how to connect skills development more tightly to the economy. In Washington, D.C., Senator Sherrod Brown of Ohio has advanced federal legislation that is modeled after the Pennsylvania approach.

Next year, in my administration, we'll take Pennsylvania's investment in industry workforce partnerships nationwide. We'll build on top of industry training partnerships two kinds of investment needed for the 21st century. First, through cost-sharing with the private sector, we'll increase funds for training employed workers—who will get the resources they need to gain new skills and move up—and for school-to-work programs that connect our youth to jobs with a future. Part of this increased skills investment should include making access to two years of college universal.

Second, we'll modernize our unemployment insurance system to give all jobless and low-income workers the combination of long-term training and income support currently available to workers who lose jobs due to trade.

Putting this three-pronged program—industry training partnerships, resources for increasing the skills of employed workers, and an employment security system for the underemployed—to work in the first 100 days of my Administration will do double duty. It will help pull us out of the recession that we will inherit and it will create a skills and career infrastructure for the 21st century.

A Moral Economy, Part 2—Invest in Good Jobs and Industries of the Future, including Renewable Energy and Energy Efficiency. We must create good manufacturing and green jobs by harnessing the power of the sun, and the wind, and our imagination. We must reduce our dependence on oil, invest in the next wave of innovation that can fuel the American economy, create the good jobs and industries of the future, and save the planet.

In the absence of national leadership, Pennsylvania is doing as much as it can at the state level to stimulate renewable energy industries. Your Advanced Energy Portfolio Standard reserves substantial portions of your electricity market for renewable energy sources, creating the guaranteed market investors need to ramp up production and invest in developing the next generation of products. Your economic development policies and Energy Independence Strategy provide subsidies to new energy companies and to solar consumers, further expanding the market and enabling the achievement of economies of scale.

Pennsylvania has also helped spawn a new alliance that will help the next administration in Washington shift to a clean and green economy. The United Steelworkers, headquartered in Pittsburgh, has joined hands with the Sierra Club to spearhead a national blue-green alliance, with ground operations in several key states, including Pennsylvania. In Pittsburgh, in mid-March, the national blue-green alliance hosted the first national green jobs, good jobs conference. This inspiring gathering brought together giant energy and energy efficiency companies, global wind manufacturers, innovative recycling entrepreneurs, manufacturing unions, building trades unions, building service unions, community based advocates for low-income workers—and many, many more.

The idea of a blue-green-gold alliance—labor, environmental groups, *and* business—brings one more overdue hammer to the old divisions that have been used to divide and conquer, divisions between environmentalists and workers, between environmentalists and businesses.

In renewable energy, the role of the federal government is to provide the missing federal investment in the future—for basic research, for new industries, for energy efficiency, and for the manufacturing industries that feed renewable energy and energy efficiency industries.

A new economic agenda for America must also provide more support for high-wage manufacturing as a whole. Pennsylvania's Manufacturing Innovation strategy, launched in 2004, points the way. This strategy aims to help Pennsylvania companies reposition themselves in specialized and quality markets with less price and cost pressure—and help avoid trying to go head-to-head with Mexico or China on price and wages. Now we need the resources from Washington to scale up a national Manufacturing Future initiative and to help American companies compete through innovation, and productivity, and quality. We also need to establish a National Innovation Foundation—NIF—to better link researchers in universities with those in industry, and translate American ingenuity into American-designed and American-made products.

A Moral Economy, Part 3—New Unions for a New Economy. This year, more than in any previous presidential campaign since 1976, labor unions are on the agenda. It's about time. Even so, the debate about unions has not yet been sufficiently tied to our discussion about how we update our policies and institutions to meet the challenges of the 21st century. There has not been enough discussion yet about how unions—like other institutions—*have to* and *are* changing to meet the challenges of a new century. There has not been enough discussion about how public policy needs to do more than simply protect workers' rights to choose to join a union—national policy also needs to support grass roots union efforts to reinvent themselves and their roles in conditions vastly different than when our current labor law framework was written, in 1935. National policy needs to help unions reposition themselves to help strengthen skill development and career supports and to get employers to pursue high-wage, high-skill paths to competitiveness. National policy needs to help unions add value as well as values to our economy—to make America's economy more moral, with opportunity and security for all, and to make America's economy more competitive.

To help Americans understand what I mean by “new unions for a new economy” I want to tell the story of child care unionism in America. One of the roots of child care unionism in America is the United Child Care Union (UCCU), formed in 1998 in Philadelphia. At its outset, this union was led by two early childhood professionals with no experience in union organizing, but with a deep commitment to improving the quality of early childhood education as well as raising wages and benefits for early childhood educators.

The leaders and members of the United Child Care Union sought to build a union that could get beyond the current grim reality in child care—teachers' earning poverty wages and frequently leaving their jobs out of economic necessity, too many young children receiving custodial or sometimes unsafe care. The reality in child care when this union was born is captured by advocates' lament that “parents can't afford to pay, teachers can't afford to stay, there's got to be a better way.”

The United Child Care Union offered itself as part of a better way, a vehicle for bringing all early childhood professionals together so that the power of organized labor could join with the power of advocates for children to win the public investment necessary for good jobs and high-quality education.

Because it gives early childhood professionals the bargaining and political strength to win increased public investment, which will produce better jobs and better quality education, those professionals have embraced new child care unionism and made it their own. Across the nation in the last few years, about 300,000 thousand child care workers, most of them family providers, have joined labor unions. Some 20,000 of these are in Pennsylvania. Across the country, new child-care unions are winning increased state investment in high-quality early childhood education, as well as using collective bargaining with states to raise the incomes of thousands of hard-working women to the level necessary to support a family.

Child-care unions remind us that a union is not only something for workers manning red-hot furnaces and along assembly lines. A union is not something that is necessarily antagonistic to

management. A union can be a powerful tool for raising quality standards and ensuring that employers invest adequately in the training and professional development of workers. A union can help whole industries shift toward high-skill, high-performance paths—and away from low-skill, low-wage. A union can help make our economy more moral and more competitive.

Child care unionization also provides a new angle on national labor law reform debates. Unionization of child-care workers has only been possible because of new state labor laws or regulations that make it possible for family child care providers statewide to choose, as a group in a single election, whether they want to belong to a union. The regulatory innovations necessary that enabled unionism in the highly fragmented family child care industry have broad relevance to much of the modern economy, dominated by small service workplaces. Instead of unionization one workplace—one factory—at a time, it makes more sense in fragmented service industries to have union elections that cut across a whole region—e.g., in janitorial services, health care, hotels and restaurants, other direct care as well as child care, construction, even retail and office work. Regional unionization could make it possible to raise wage and benefit standards, without disadvantaging any employers. Higher wages, benefits, access to training, and other gains in collective bargaining could transform tens of millions of low-wage jobs into middle-class ones. This kind of geographical unionization makes it much easier to imagine an upsurge of unionization powerful enough to bring back the American middle class.

The regulatory innovations that helped grow child care unionism shed new light on the Employee Free Choice Act, which would help restore to American workers the right to join a union free from employer intimidation. The importance of the Employee Free Choice Act is not just to level the playing field between employers and workers in union elections, which are currently based on a 1930s labor law framework in which unionization takes place one big factory at a time. The importance of this Act is also to give unions—and states—more room to innovate and experiment with models that will fit today's economy, including “broad-based” or sector wide unionization in regional labor markets. Although most employers will take a while to warm up this idea, broad-based unionism could also be a powerful benefit to smaller manufacturers, who are struggling to attract qualified young people to replace an aging skilled workforce. These employers could also use the help of a skill-based union to implement high-wage and high-productivity practices. Unionization tailored to today's competitive challenges can help Pennsylvania and America achieve a moral economy in the 21st century.

A Moral Economy, Part 4—Smart Trade. Another critical component of policies needed to create a moral economy is Smart Trade. Smart Trade would make the global economy respect our values and improve economic outcomes. It would reorient international competition towards high-productivity strategies and it would help ensure that all workers—in China, Mexico, the United States, and elsewhere—share sufficiently in the fruits of their labor to ensure that global demand expands in tandem with the global capacity to produce.

Smart Trade includes four missing dimensions in trade debates to date. First, we need a real approach to achieving trade balance—an exchange rate with China that accurately reflects the value

of its currency and, if necessary, negotiations to reduce the Americas trade deficit with Asia, starting in the global auto industry. Second, we need infrastructure and development funds for poorer regions within North America and our broader hemispheric trading bloc, from Canada to Argentina. These funds will help create demand for U.S. exports. Better economic opportunities back home in low-wage countries like Mexico will also reduce the flow of desperate immigrants that place downward pressure on the wages of low-skill U.S. workers. Third, we need well funded re-employment and training programs, for all U.S. workers in our dynamic economy—that modernized employment insurance program I described earlier.

Last, we need a meaningful approach to ensuring that trade supports the leveling upward of labor rights, and labor and environmental standards, not a race to the bottom. Right now in trade agreements, we have an approach that centers on each country enforcing its own current labor laws. Even if the enforcement had teeth, which it doesn't, this amounts to using trade to enforce outmoded and inadequate regulations. When countries have outmoded and inadequate regulations—as in the United States, Mexico, and China—trade policy must begin by upgrading and modernizing national labor law.

In the case of the United States, modernizing domestic labor law would mean passing the Employee Free Choice Act and then implementing that it a way that facilitates broad-based unionization. Thus, trade expansion and the reform of the North American Free Trade Agreement (NAFTA) should be linked to the approval of EFCA. In Mexico, continuation of NAFTA should require meaningful labor law reform that protects workers' rights to form independent unions. If we want workers to share in any overall economic gains from trade, then we need labor laws in each country that make sense for the 21st century and that will fix the broken link between productivity and wages in each trading partner. These labor laws will reduce the temptation companies have to follow the low road and invest in places with the most substandard laws and practices.

Another step to promoting leveling up of labor standards would be launch an Americas labor standards initiative that builds on innovative approaches to raising standards already taking place in various parts of the continent. Where necessary, including in the United States, this initiative should increase resources for enforcement. This initiative should also seek to make creative labor standards enforcement part of the overall effort to help companies compete through high-productivity strategies.

Once labor laws in each trading partner have been modernized, and collaboration to improve labor standards enforcement is in place then the use of trade to enforce rights and standards will have real value.

A Moral Economy, Part 5—An Economic Stimulus to Kick Start A New Deal for a New Economy. The last dimension of the economic plan I want to highlight today is how to use the immediate need to respond to the economic downturn to kick-start the implementation of a long-term strategy for economic renewal. In the first 100 days of 2009, we can accomplish this, and kill two birds with one

stone, by:

- launching major investments in the green economy—in renewable energy, energy efficiency, clean manufacturing, and efficient transportation;
- investing immediately and substantially in skill upgrading for jobless and underemployed workers, including through the establishment of our new employment security program that will give all jobless workers access to unemployment benefits and long-term training;
- providing resources to states and localities so that they do not need to cut critical investments and social services in the throes of an economic downturn.

There are many other things we need to do to make up for years of neglect of working families. We need, for example, to increase the minimum wage and index future increases to inflation plus a portion of the increase in productivity growth; we need to support working parents struggling to meet their responsibilities on the job and at home by expanding the Family and Medical Leave Act, ensuring all have some form of paid sick leave or family leave, and increasing tax credits for child care; we need to reform our health care system to achieve universal coverage, lower costs, and higher quality of patient care.

But one of my goals here today was not to present a laundry list but to advance a more integrated vision of an American economy that would, once again, deliver for all Americans and for the economy as a whole. Implemented together, the ideas outlined here would help launch America towards a moral economy that respects our values and that also succeeds on economic grounds. This vision would achieve higher levels of productivity, quality, and innovation; expand opportunity and security; help pull the U.S. out of recession in the short run and, in the long, help ensure that global demand expands steadily with global supply, avoiding a global version of the Great Depression; and confront the challenge of global climate change.

For working families, the plan outlined here would expand opportunity and security by:

- Giving all workers access to training and upward mobility
- Investing in good, clean, and green jobs
- Giving workers a real choice to join a union
- Promoting smart trade that creates good jobs here and abroad
- Passing an economic stimulus that kick-starts the next New Deal

My goal here today was also to offer a more honest discussion of the economy and I hope have achieved that standard. Part of what I mean by honest can be suggested by the progress that U.S. debates about global warming have recently reached. Although actual improvement of policies must await the next administration, a growing share of participants in political debate on climate change accept that the conversation must begin from the science—what do the scientific models say about the how much carbon emissions must be cut by when? Whatever mix of education, subsidies,

mandates, and cap-and-trade or other market-oriented mechanisms works best, the emerging consensus says, we **MUST** cut carbon emissions as fast as the models say. There is less and less vacillation based on what the market can bear—in terms of slashing emissions—and more and more pragmatic acceptance that we have no choice but to construct the market in a way that saves the planet.

As far as I am concerned, we also have no choice but to reconstruct the American market in a way that will restore opportunity and security.

I have tried today to offer policy prescriptions that, taken together, would bring unprecedented opportunity and security to women and men, people of every color, immigrants as well as the native born.

Our nation has faced fundamental economic shifts before, and each time we've kept our economy strong and competitive by expanding opportunity; growing our middle-class; investing in innovation, and investing in the education and well-being of our workers. America can rise to this challenge once again.

We can have the kind of America, the kind of economy we want. The fate of America and its working families is not determined by technology or by markets or by globalization. Once that reality is grasped, once our economic problems are recognized as soluble, they become amenable to resolution through politics—through landmark elections like the one upcoming this year. There is much we do not yet know about how to rebuild our economy and middle class, many details that can only be worked out in practice. But we know enough to get started. We know at least as much as Roosevelt did in 1932. The time has come to create a New Deal for a New Economy.

For more on building a moral economy, visit www.keystoneresearch.org and www.stateofworkingpa.com