

Testimony of

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“Jobs Picture: Strategies to Rebuild Competitiveness and Communities”

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Senator Brown, thank you very much for inviting me to testify on these important issues. I will also submit a supplemental document for the record.

Today I would like to briefly discuss some solutions to the employment issue that also create community, improve competitiveness, and provide clean energy. The current high levels of unemployment will eventually recede. But — how soon? What kind of jobs will be created?

Recent trends don't paint a positive picture. Over the last seven years the income of the median working-age household fell \$2,000 — the first economic expansion in US history in which the typical worker's income decreased.¹

We can do better than this. We can create good jobs while helping to achieve other national goals. In particular, both manufacturing and service firms can use a “high-road” production process that harnesses everyone's knowledge — that of front-line workers as well as top executives and investors — to achieve innovation, quality and quick responses to unexpected situations. This high-road model of production provides an alternative to the all-too-common “low-road” model, in which most employees are treated as disposable drones who merely follow orders from “stars” at the top.

Here's an example of how the high road works. A firefighter in Solon, Ohio had an idea, based on his own experience: a compass to guide firefighters when they are inside burning buildings. Much of the design was provided by the federally-funded Manufacturing Extension Program, and the tooling for the plastic molding was built by Colonial Machine in Kent, Ohio. Colonial Machine is successful because the firm made several investments at once: they adopted advanced information technology, while also changing their product strategy (to produce more customized products), their operations strategy (using their new IT capability to reduce setup times), and human resource policies (employing workers with more problem-solving skills, and using more teamwork). The success of the changes in one area depended on investments in other areas. For example, customizing products would not have been profitable without the reduced time required to change over to making a new product; this reduction was made possible both by the improved information from the IT and the improved use of the information by the more-empowered workers. Just training workers by itself would have had little impact without redesigning their jobs so that workers could pool knowledge and have power to recommend changes.

The high road's linked information flow is powerful because real production rarely takes place exactly according to plan. This is particularly true when firms are producing products that aren't yet mature (such as “green” products), or there is a major change in production conditions (such as a desire to reduce a firm's carbon footprint). In these cases especially, the understanding that direct workers have is crucial to running and improving the process — waiting for managers and

¹ <http://www.cbpp.org/8-29-06pov.htm>

engineers to issue directives takes much longer and costs much more. Thus, high road practices increase competitiveness.

High road production also empowers workers by involving them integrally in designing and improving their own jobs. Workers interact more closely with their customers, suppliers and co-workers, making jobs harder to offshore. Their increased value to their employer also enables them to be paid more. These practices can greatly help manufacturing, which has been hammered with the loss of 3.7 million jobs over the last 7 years—and these were good jobs that paid 20 percent more than the national average. They can also improve service jobs whose numbers have been growing — but many of which are low wage. Thus, high road practices help communities, by providing fairly paid, stable jobs.

High-road practices are not new. But, markets alone fail to provide the proper incentives for firms to adopt high-road policies. First, many of the benefits of the high road accrue to workers, suppliers, and communities, in the form of higher wages and more stable employment. Thus, firms usually invest too little in training; they fear that they will not get the full benefit of their training expenditure since the trained employees might be hired away by other firms. Second, the high road works only if a company adopts several practices at the same time. Thus, direct services to workers and firms are necessary to develop interdependent high-road capabilities.

Because of these market failures, low-road options remain attractive to firms, even though they impose costs on society. To “pave the high road,” we need more government investment in education, training, research, and development. But we also need to “block the low road”, by doing such things as protecting labor and environmental rights in trade agreements, and strengthening safety regulations for workplaces and consumer products.

But more is needed. Education alone will not allow firms to overcome the market failures that block adoption of efficient, high-road practices. Nor will it reinvigorate income growth, which for the median college-educated man has risen only half a percent annually since 1973. Similarly, increased R&D spending by itself won't get innovative products to market. Fortunately, high-road producers excel at overcoming the obstacles that have hampered American firms' ability to move from lab to production.

And, even with fair trade agreements, American workers will still face foreign competition. A key way to respond to this challenge is by providing direct services to firms to build capabilities. The federal Manufacturing Extension Partnership is an important example of a program that helps firms move toward the high road by helping companies make complementary investments to develop new products, find new markets and operate more efficiently. With the help of programs like MEP, US manufacturing firms can compete with low wage nations. The Michigan Manufacturing Technology Center suggests that most small manufacturers have costs within 20 percent of their Chinese competitors'—a gap that MEP programs can often eliminate. In fact, the MEP pays for itself in increased tax revenue from the firms it helps.

Yet the Bush administration wants to end this program. Instead, we should triple the program's funding — a step that would cost only \$300 million per year. We should also extend the program to the service sector.

An important adjunct to this technical assistance program is the “Strengthening Employment Clusters to Organize Regional Success (SECTORS) Act.” Recently introduced by Senators Brown and Snowe, this legislation provides for grants of up to \$2.5 million each for cross-firm partnerships for planning and training within an industry cluster.

High road production can also help meet important national goals, such as moving toward a clean energy economy. Green stimulus programs such as that proposed by the Political Economy Research Institute can create good jobs in the short term while providing the foundation for a sustainable economy. They propose spending \$100 billion over the next two years to employ 2 million people in building a green energy infrastructure. These investments are quite productive; for example, investments in increasing residential energy efficiency pay for themselves in three years. These programs can also be structured to create a career ladder, as the Green Academy at Cuyahoga Community College is beginning to do. Workers can start with entry-level activities such as demolition, and then move on to higher-skilled tasks like energy-efficient interior design².

In conclusion, high road production practices offer a way of providing family-supporting employment, while meeting the challenges of increasing competitiveness, community, and clean energy. Policies such as those discussed above would be a useful start.

² <http://shop.cleveland.com/SS/Page.aspx?sstarg=&facing=false&secid=51643&artid=904229>