

Schools as Scapegoats

Our increasing inequality and our competitiveness problems are huge—but they can't be laid at the door of our education system.

BY LAWRENCE MISHEL AND RICHARD ROTHSTEIN

E DUCATION IS THE ANSWER. BUT, WHAT'S THE question? Simple: What's the cure for any adverse economic condition?

Is your pay stagnant or declining? Quick, get more education.

Are workers failing to share in economic growth? Too bad, they should have gained more skills.

Are you worried about jobs offshored to low-wage countries? Blame schools for workers' lack of creativity.

Is the nation failing to compete globally? Raise education standards across the board.

Education as the cure-all is everywhere around us. But this contention exaggerates the role of schools in the economy, and it conflates two issues: First, how can American firms increase productivity to improve their ability to compete in the world? And second, how have the fruits of U.S. productivity growth been distributed, and what explains rising inequality?

Education can help in the first area, although it is far from a silver bullet. As to the second, education deficits have had very little to do with the changes in the distribution of wages. Fortunately, after more than two decades, the education-as-panacea argument is being overwhelmed by contradictory evidence. Perhaps we may now be able to face more clearly the separate challenges of enhancing competitiveness and reconnecting the link between productivity growth and pay.

THE MODERN OBSESSION WITH SCHOOLS AS THE CAUSE AND CURE of our economic problems began with President Ronald Reagan's 1983 report, *A Nation at Risk*. Increased market shares for Japanese automobiles, German machine tools, and Korean steel, the report charged, reflected the superior education of workers in those nations: "Our once unchallenged preeminence in commerce, industry, science, and technological innovation is being overtaken by competitors throughout the world ... The educational foundations of our society are presently being eroded by a rising tide of mediocrity that threatens our very future as a Nation ..."

In 1990, a group of prominent Democrats and Republicans, calling themselves the National Center on Education and the Economy, followed with another report, *America's Choice*:

High Skills or Low Wages. It saw skills development as virtually the *only* policy lever for shaping the economy. It charged that inadequate skills attained at flawed schools had caused industrial productivity to "slow to a crawl" and would, without radical school reform, lead to permanently low wages for the bottom 70 percent of all Americans.

Leading public intellectuals, such as *Prospect* co-founder Robert Reich, focused attention on human capital solutions in a laissez-faire global system. In his book, *The Work of Nations*, Reich argued that international competition would be won by nations with the most (and best) "symbolic analysts," not "routine" workers. Lester Thurow's book, *Head to Head*, forecast that Western Europe would come to dominate the United States and Japan because European schools were superior. Many mainstream economists, both liberal and conservative, agreed that rising-wage and income inequality were caused by an acceleration of "skill-biased technological change," meaning that computerization and other advanced technologies were bidding up the relative value of education, leaving the less-skilled worse off.

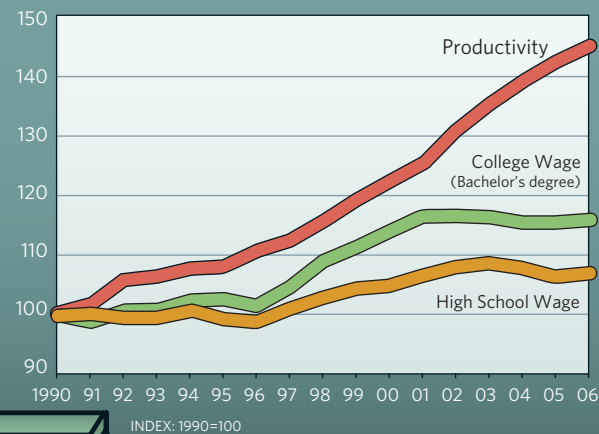
Yet the response of American manufacturers to these analyses was curious. Automakers moved plants to Mexico, where worker education levels are considerably lower than those in the American Midwest. Japanese manufacturers pressed their advantage by setting up non-union plants in places like Kentucky and Alabama, states not known for having the best-educated workers. But high school graduates in those locations apparently had no difficulty working in teams and adapting to Japanese just-in-time manufacturing methods.

The ink was barely dry on the *America's Choice* report when Americans' ability to master technological change generated an extraordinary decade-long acceleration of productivity in the mid-1990s, exceeding that of other advanced countries. It was accomplished by the very same workforce that the experts claimed imperiled our future. Productivity advances created new wealth to support a steady increase in Americans' standard of living.

And for a brief period, standards of living did increase because the fruits of productivity growth were broadly shared. As the chart on the next page shows, the late 1990s saw increasing wages for both high school and college graduates. Even

The Productivity-Pay Gap

Hourly productivity and real average wage growth, 1990–2006



wages of high school dropouts climbed. But no presidential commissions or distinguished experts were praising American education for producing widely shared prosperity. Instead, denunciations of public schools increased in intensity, often tied to calls for their privatization with vouchers.

Then, the collapse of the stock bubble in 2000, the recession of the early 2000s, and the intensification of policies hostile to labor, brought wage growth to a halt. Living standards again began to decline and inequality zoomed—at the same time that workforce productivity continued to climb. White-collar offshoring to India, China, and other low-wage countries signaled that globalization was now taking its toll on computer programmers and other symbolic analysts of the information age.

TODAY, HOWEVER, A NEW CAST OF DOOMSAYERS HAS RESUSCITATED an old storyline, picking up where *A Nation at Risk* left off. Forgetting how wrong such analyses were in the 1980s and 1990s, the contemporary cliché is that however good schools may once have been, the 21st century makes them obsolete. Global competition requires all students to graduate from high school prepared either for academic college or for technical training requiring an equivalent cognitive ability. We can only beat the Asians by being smarter and more creative than they are.

The argument got a boost from *New York Times* columnist Thomas Friedman's 2005 book, *The World is Flat*, and has been repeated by the same National Center on Education and the Economy in *Tough Choices or Tough Times*, a sequel to its 1990 report. The argument has also garnered support from influential foundations (Gates, for example, and its chairman, Bill Gates) and from education advocacy groups (such as the testing organization, ACT).

The *Tough Choices* report bemoans the fact that “Indian engineers make \$7,500 a year against \$45,000 for an American engineer with the same qualifications” and concludes from this that we can compete with the Indian economy only if our engineers are smarter than theirs. This is silly: No matter how

good our schools, American engineers won't be six times as smart as those in the rest of the world. Nonetheless, Marc Tucker, author of *Tough Choices* (and president of the group that produced the 1990 report as well), asserts, “The fact is that education holds the key to personal and national economic well-being, more now than at any time in our history.”

Administration officials blame workers' education for the middle-class income stagnation that has occurred on Bush's watch. Treasury Secretary Henry Paulson contends that “market forces work to provide the greatest rewards to those with the needed skills in the growth areas. This means that those workers with less education and fewer skills will realize fewer rewards and have fewer opportunities to advance.” Former Federal Reserve Chairman Alan Greenspan frequently blamed schools for inequality: “We have not been able to keep up the average skill level in our workforce to match the required increases of increasing technology ...”

This view can be found on both the Republican right and the Democratic center. The American Enterprise Institute's Frederick Hess and former Clinton White House domestic policy staffer Andrew Rotherham jointly write in an AEI article that “study after study shows an America unprepared to compete in an increasingly global marketplace.” They worry that the urgent “competitiveness agenda” could be derailed if we are distracted by a focus on equity-improving outcomes for disadvantaged students. Attention will now have to be turned, they conclude, to further improving the technological savvy of those already primed to succeed.

University of Chicago economists Kevin Murphy and Gary Becker (a Nobel laureate) recently wrote that there is an “upside” to income inequality because it encourages more people to go to college. They warn that raising taxes on high-income households and reducing them on low-income households is tantamount to “a tax on going to college and a subsidy for dropping out of high school.” In this way of thinking, preserving the Bush tax cuts is the way to stimulate college enrollment.

But these 21st-century claims are as misguided as those of the last century. Of course we should work to improve schools for the middle class. And we have an urgent need to help more students from disadvantaged families graduate from good high schools. If those students do so, our society can become more meritocratic, with children from low-income and minority families better able to compete for good jobs with children from more privileged homes. But the biggest threats to the next generation's success come from social and economic policy failures, not schools. And enhancing opportunity requires much more than school improvement.

The misdiagnoses of the early 1990s were understandable. When *America's Choice* was written, when the Reich and Thunrow books were best sellers, American productivity growth had, indeed, stagnated. These authors could not have known that explosive growth was just around the corner. But today's education scolds have no such excuse. Workforce skills continue to generate rising productivity. In the last five years, wages of both

high school- and college-educated workers have been stagnant, while productivity grew by a quite healthy 10.4 percent.

Rising workforce skills can indeed make American firms more competitive. But better skills, while essential, are not the only source of productivity growth. The honesty of our capital markets, the accountability of our corporations, our fiscal-policy and currency management, our national investment in R&D and infrastructure, and the fair-play of the trading system (or its absence), also influence whether the U.S. economy reaps the gains of Americans' diligence and ingenuity. The singular obsession with schools deflects political attention from policy failures in those other realms.

But while adequate skills are an essential component of productivity growth, workforce skills cannot determine how the wealth created by national productivity is distributed. That decision is made by policies over which schools have no influence—tax, regulatory, trade, monetary, technology, and labor-market policies that modify the market forces affecting how much workers will be paid. Continually upgrading skills and education is essential for sustaining growth as well as for closing historic race and ethnic gaps. It does not, however, guarantee economic success without policies that also reconnect pay with productivity growth.

American middle-class living standards are threatened, not because workers lack competitive skills but because the richest among us have seized the fruits of productivity growth, denying fair shares to the working- and middle-class Americans, educated in American schools, who have created the additional national wealth. Over the last few decades, wages of college graduates overall have increased, but some college graduates—managers, executives, white-collar sales workers—have commandeered disproportionate shares, with little left over for scientists, engineers, teachers, computer programmers, and others with high levels of skill. No amount of school reform can undo policies that redirect wealth generated by skilled workers to profits and executive bonuses.

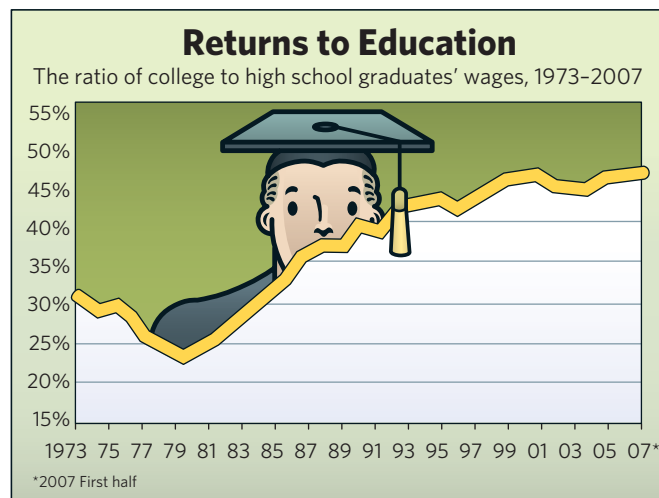
College graduates are, in fact, not in short supply. A background paper for the *Tough Choices* report (but not one publicized in the report itself) acknowledges that “fewer young college graduates have been able to obtain college labor market jobs, and their real wages and annual earnings have declined accordingly due to rising mal-employment.” In plain language, many college graduates are now forced to take jobs requiring only high school educations.

In many high school hallways you can find a chart displaying the growing “returns to education”—the ratio of college to high school graduates' wages. The idea is to impress on youths the urgency of going to college and the calamity that will befall those who don't. The data are real—college graduates do earn more than high school graduates, and the gap is substantially greater than it was a few decades ago. But it is too facile to conclude that this ratio proves a shortage of college graduates.

Statistically, the falling real wages of high school graduates has played a bigger part in boosting the college-to-high-school wage ratio than has an unmet demand for college graduates. Important causes of this decline have been the weakening of labor market

institutions, such as the minimum wage and unions, which once boosted the pay of high school-educated workers.

For the first time in a decade, the minimum wage was recently increased. The curious result will be a statistical decline in “returns to education.” But we should not conclude from a minimum-wage increase that we need fewer college graduates, any more than we should have concluded from falling wages for high school graduates that college graduates are scarce and schools are failing.



Another too glib canard is that our education system used to be acceptable because students could graduate from high school (or even drop out) and still support families with good manufacturing jobs. Today, those jobs are vanishing, and with them the chance of middle-class incomes for those without good educations.

It's true that many manufacturing jobs have disappeared. But replacements have mostly been equally unskilled or semi-skilled jobs in service and retail sectors. There was never anything more inherently valuable in working in a factory assembly line than in changing bed linens in a hotel. What made semiskilled manufacturing jobs desirable was that many (though not most) were protected by unions, provided pensions and health insurance, and compensated with decent wages. That today's working class doesn't get similar protections has nothing to do with the adequacy of its education. Rather, it has everything to do with policy decisions stemming from the value we place on equality. Hotel jobs that pay \$20 an hour, with health and pension benefits (rather than \$10 an hour without benefits), typically do so because of union organization, not because maids earned bachelor's degrees.

It is cynical to tell millions of Americans who work (and who will continue to be needed to work) in low-level administrative jobs and in janitorial, food-service, hospitality, transportation, and retail industries that their wages have stagnated because their educations are inadequate for international competition. The quality of our civic, cultural, community, and family lives demands school improvement, but barriers to unionization have more to do with low wages than does the quality of education. After all, since 1973 the share of the workforce with college

degrees has more than doubled; over 40 percent of native-born workers now have degrees beyond high school. Additionally, the proportion of native-born workers that has not completed high school or its equivalent has decreased by half to just 7 percent.

Indeed, Becker's and Murphy's own data confirm what our chart shows: The wage gap between college- and high school-educated workers was flat from 2001 to 2005. However, inequality surged in this period, a fact that can't be explained by something that didn't change! Moreover, other industrialized countries have seen a more rapid growth in college completion than the United States has, yet those nations accomplished this educational growth without increasing inequality.

FORTUNATELY, THE ELITE CONSENSUS ON EDUCATION AS a cure-all seems now to be collapsing. Offshoring of high-tech jobs has deeply undercut the Clinton-era metaphor of an education-fueled transition to the information age, since it is all too apparent that college educations and computer skills do not insulate Americans from globalization's downsides. Former Clinton economic advisor (and Federal Reserve vice chairman) Alan Blinder has emerged as an establishment voice calling attention to the potentially large-scale impact of continued offshoring. Blinder stresses that the distinction between American jobs likely to be destroyed by international competition and those likely to survive is *not* one of workers' skills or education. "It is unlikely that the services of either taxi drivers or airline pilots will ever be delivered electronically over long distances ... Janitors and crane operators are probably immune to foreign competition; accountants and computer programmers are not."

A growing number of other mainstream economists now also caution that blaming inadequate schooling for falling living standards and growing inequality might be too simplistic. In a series of papers, David Autor, Larry Katz, Melissa Kearney, Frank Levy, and Richard Murnane, mainstream Cambridge-based economists who promoted the story of a technology-based transition to the 21st century, now have revised their account. They assert that prior to the 1990s, technology increased demand for more educated workers across the board, but that now there is "polarization," where technology disadvantages middle-skilled workers relative to those with both more and less education. Their finding severely undercuts the suggestion that upgrading human capital is the solution to inequality.

Alan Greenspan's successor as Federal Reserve chairman, Ben Bernanke, has also adopted a less simplistic analysis. While concurring that skills matter, Bernanke also observes that a poorly educated workforce cannot explain "why the wages of workers in the middle of the distribution have grown more slowly in recent years than those of workers at the lower end of the distribution, even though, of the two groups, workers in the middle of the distribution are typically the better educated."

Prominent free-trade economists now also acknowledge that education reform cannot address Americans' economic insecurity nor solve globalization's political problems. In a recent analysis prepared for the financial services industry, two prominent former Bush administration economists (Grant

Aldonas and Matthew Slaughter), and one from the Clinton administration (Robert Z. Lawrence), wrote that since 2000, "only a small share of workers at the very high end has enjoyed strong growth in incomes. The strong U.S. productivity growth of the past several years has not been reflected in wage and salary earnings, and instead has accrued largely to the earnings of very high-end Americans and to corporate profits. The bottom line is that today, many American workers feel anxious—about change and about their paychecks. Their concerns are real, widespread, and legitimate ... For college graduates and those with non-professional master's degrees, this poor income performance is a new and presumably unwelcome development."

And Robert Reich no longer believes that being a symbolic analyst is adequate income protection. He now blogs, "The only people who are getting much out of this economy are in the top one percent—earning over \$800 grand a year. They're taking home almost 20 percent of total income. Back in 1980, the top one percent took home 8 percent of total income."

In a paper recently posted on the National Bureau of Economic Research's Web site, Massachusetts Institute of Technology economists Frank Levy and Peter Temin wrote, "The current trend toward greater inequality in America is primarily the result of a change in economic policy that took place in the late 1970s and early 1980s." They went on to say that "the recent impacts of technology and trade have been amplified by the collapse of these institutions," by which they mean the suppression of unions and the abandonment of the norm of equality.

These are not problems that can be solved by charter schools, teacher accountability, or any other school intervention. A balanced human capital policy would involve schools, but would require tax, regulatory, and labor market reforms as well. To take only one example, in the daze of college-for-all, what used to be called "vocational" or "career" education has been discredited. It should be brought back. We recently analyzed a group of 21st-century occupations not requiring a college education that, at least for the time being, still provide middle-class incomes. These include firefighters, electricians, machinists, aircraft engine mechanics, electronic technicians, licensed practical nurses, and clinical laboratory technicians. We found that white non-college youth were 50 percent more likely to land one of these "good" jobs than black non-college youth. Equalizing this access will require a combination of stepped up anti-discrimination efforts, job placement services, and skills training directed at schools serving minority youth.

In their paper posted on the Web site of the National Bureau of Economic Research, Levy and Temin conclude, "No rebalancing of the labor force can restore a more equal distribution of productivity gains without government intervention and changes in private sector behavior."

We agree. **TAP**

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