Economic Policy Institute

June 1, 2007

In December, 2006, the New Commission on the Skills of the American Workforce issued a report, *Tough Choices or Tough Times*, written by the commission's director, Marc Tucker. In the June issue of *Phi Delta Kappan*, Tucker summarized his *Tough Choices* report, and Lawrence Mishel and Richard Rothstein (president and research associate at the Economic Policy Institute, respectively) critiqued it.

Below is the Mishel-Rothstein critique, including hyperlinks to additional material.

Response to Marc Tucker

by Lawrence Mishel and Richard Rothstein

THE *New* Commission on the Skills of the American Workforce believes that revolutionary improvements in education and skills are the antidote to globalization and to a corresponding deterioration in U.S. living standards. As we demonstrate below, this claim is untrue.

Nonetheless, the *New* Commission's approach to improving education gets some things right: address income inequality and the housing, health, and other constraints that disadvantaged students face;[1] boost teacher compensation to upgrade recruitment and retention; provide pre-kindergarten for all 3- and 4-yearolds; and augment school time with after-school and summer programs. These admirable proposals need not be justified by false notions of impending economic calamity.

This new report is a sequel to one Marc Tucker and the first Commission issued in 1990.[2] Then, as now, they made some reasonable recommendations about educational improvement, but their economic analysis was spectacularly wrong, as events have proved. Like this one, the earlier report saw skill development as virtually the *only* policy lever for shaping the economy. The earlier report charged that inadequate skills from 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% of all Americans. Yet within a few years of the 1990 report's publication, Americans' ability to master technological change generated an extraordinary leap in productivity. This acceleration, exceeding that of other advanced countries, was accomplished by the very same work force that the first Commission said imperiled our future. And it created new wealth that could have supported a steady increase in Americans' standard of living.

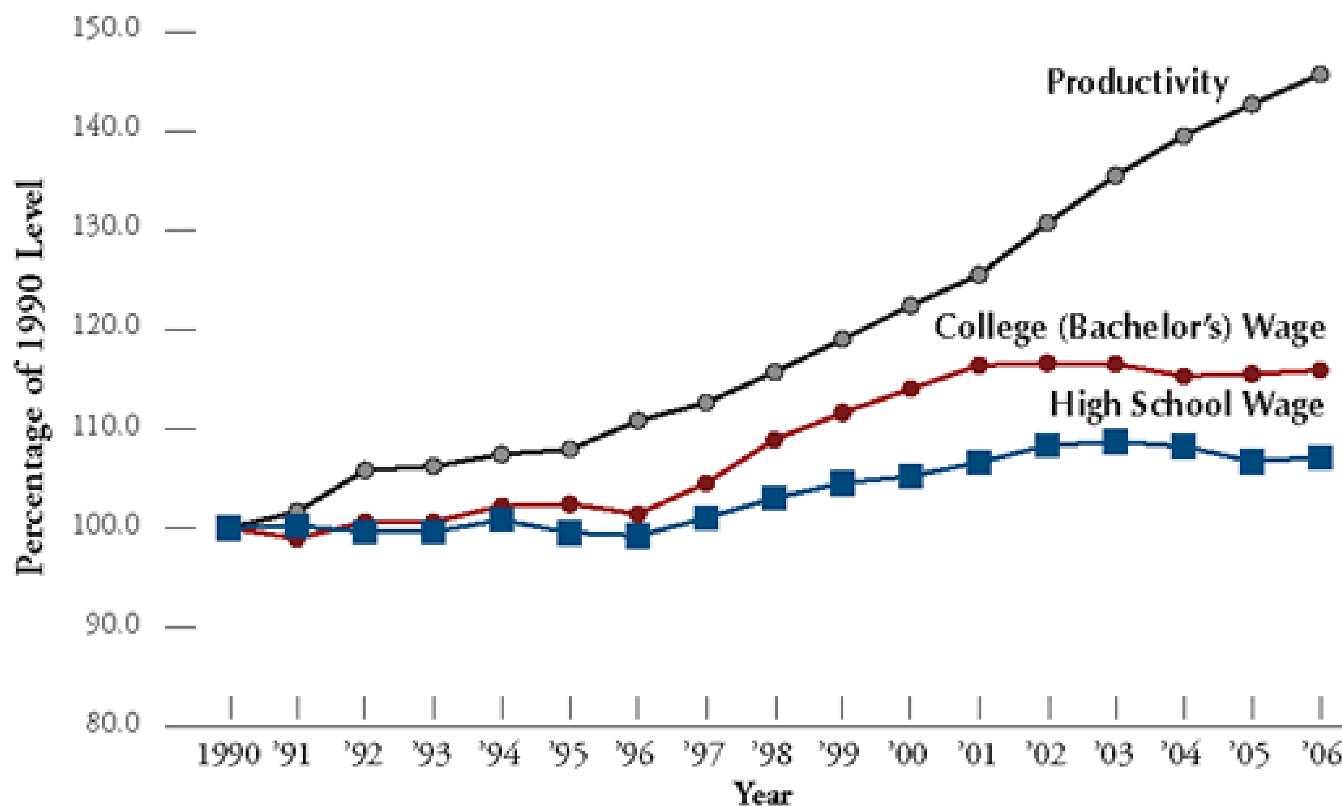

FIGURE 1.
The Productivity/Pay Gap: Hourly Productivity and Real Average Wage Growth, 1990-2006

Source: Authors' analysis of Bureau of Labor Statistics' Current Population Survey, Outgoing Rotation Group Files, and Productivity and Costs Series (www.bls.gov). Further detail on this analysis can be found in Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007* (Ithaca: Cornell University Press, 2007), Appendix B.

Indeed, for a brief period, it did so. As Figure 1 shows, the late 1990s saw broad-based wage growth, increasing the living standards of all families, including those headed by high school and college graduates. Even the wages of high school dropouts climbed. But then, just after the turn of the century, wage growth stopped, and living standards fell. Yet the skills of the work force continue to boost productivity. In the last four years, wages of both *high school- and college-educated* workers have been stagnant, while productivity grew by an extraordinary 11.5%.[3]

Work-force skills can spur productivity growth which, in turn, increases national wealth, but skills cannot determine how that wealth is distributed. This is a function of policies over which schools have no influence: tax, regulatory, trade, monetary, technology, anti-discrimination, and labor market policies organize the *demand* for skilled workers and help determine how much they are paid. Continued upgrading of skills is essential for continued growth and especially for closing historic racial and ethnic income gaps but is no

guarantee of economic success without policies to ensure that productivity gains are passed on to employees.

One of the commissioned papers, on which the *New* Commission relied, acknowledges that young college graduates

> have not escaped labor market problems in recent years. 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. These young college graduates also take jobs that displace their peers with lower levels of schooling.[4]

In plain language, some college grads are forced to take jobs requiring only a high school education. Yet Tucker — and the *New* Commission report — ignores this evidence and baldly claims that skill shortages require us to send all (or nearly all) students to college. Tucker asserts in the *Kappan*:

> [T]here is a clear divide between those who have some college and those who do not. The former are becoming ever better off. The latter are sinking fast. The fact is that education holds the key to personal and national economic well-being, more now than at any time in our history.

This assertion, regarding those who have "some college" (not only four-year degrees), is inaccurate. The average hourly wage for men with "some college" education was no higher in 2005 than in 1973. Women's wages in this group rose only 20%, despite a 75% growth in national productivity. Wages for both men and women with "some college" have been stagnant since 2000. What economic theory did the *New* Commission employ to conclude that, when wages of the most skilled workers are stagnant or falling (and the wage gap between high school- and college-educated workers is flat), American employers must be suffering from a shortage of work force skills? Economic data clearly indicate that we now generate sufficient skills to support healthy productivity growth and national economic competitiveness.

These work force skills are not being rewarded partly because the fruits of productivity growth have been redistributed from wages to profits. As for wages themselves, some college graduates — managers, executives, white-collar sales workers — have commandeered disproportionate shares of the gains, with little left over for scientists, engineers, teachers, and others with high levels of skill. No amount of school reform can undo regulatory and labor market policies that redirect wealth generated by skilled workers to profits and executive bonuses.[5]

Tucker properly notes that those without some college are "sinking fast." But it is naive to conclude that this reflects a pure market response to relative demand for skills. An important reason that the wages of workers with only a high school education have been falling faster than those of the college-educated is a reformulation of labor market institutions to the disadvantage of the less-educated: specifically, the real value of the minimum wage has plummeted, and legal protections for employee collective bargaining have withered. Congress recently adopted an increase in the minimum wage. As a result, "returns to education" will decline as wages of less-educated workers rise. It would be foolish to conclude from this that college degrees are no longer valuable, just as it was foolish to conclude from rising returns to education — because of a falling minimum wage — that college degrees were in critically short supply.

Certainly, globalization is placing extraordinary stress on American living standards. But, as Alan Blinder

notes in a recent article in *Foreign Affairs* , the distinction between jobs under pressure from international competition and those that are more secure is not one of 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.[6]

With respect to highly skilled jobs that are threatened, no school improvement can be sufficient to solve the problem on its own. The *New* Commission's report asserts that "Indian engineers make $7,500 a year against $45,000 for an American engineer with the same qualifications" and concludes that employers will continue to hire Americans only if we are better than, not only as good as, the Indians. Should American schools really be expected to graduate engineers who are five times, or even twice, as productive as those living elsewhere? School reform cannot be the primary answer to such problems. We distract ourselves from grappling with serious economic challenges by a myopic focus on school improvement alone.

We argue that it should not be necessary to invent simplistic economic nightmares to support school improvement, and we agree with some of the *New* Commission's recommendations. But flawed economic analysis leads the panel to go beyond reasonable recommendations to several that are reckless. Space permits us to focus on just one: revolutionizing teacher compensation by eroding retirement benefits.

The *New* Commission properly observes that, if we want to recruit and retain better teachers, we must pay them more. But attempting to accomplish this without fully paying the price, the *New* Commission creates a myth that teacher benefits are so generous that we can reduce them and use the savings to boost salaries.

Believing this, the *New* Commission proposes to end teachers' defined-benefit pension plans (funded in advance to pay retirees a guaranteed annuity) and substitute defined-contribution or cash-balance plans (in which employers make contributions to teachers' individual retirement accounts, but in which the size of each teacher's pension depends on how savvy an investor she becomes). This is supposed to cut schools' contributions in half, from 12% to 6% of salaries, thus matching the plans of "better private employers."

We have scoured the *New* Commission's report and find no evidence to support its claim that better private employers have a lower benefit load than school systems. Our own investigation suggests that the *New* Commission greatly exaggerates the relative superiority of teacher benefits and thus of the resources available to increase wages by reducing those benefits.

Pension contributions of many school districts do exceed those of many private employers, but *all* private employers also pay social security taxes on salaries paid to professional workers, who receive a defined benefit social security retirement annuity to supplement their 401Ks. Many teachers, however, are still not covered by social security, a fact that reduces the national average cost of teacher benefits.

TABLE 1.

Wages and Benefits as a Share of Total Compensation

	K-12 Teachers	Professionals
Direct wages	73.2	71.6
Paid leave	5.1	7.5
Total W-2 wages	**78.5**	**80.9**
Insurance	9.8	7.6
Pension	**6.1**	**4.8**
Payroll Taxes: Legally required	**5.4**	6.7
other	0.2	0.0
Non-wage benefits	**21.5**	**19.1**
Total Compensation	**100.0**	**100.0**
Pension & Payroll Taxes Combined	11.5	11.5

Source: Bureau of Labor Statistics (www.bls.gov/news.release/archives/ecec_0922206.pdf, Table 2). The "paid leave" and "supplementary pay" categories are called "benefits" by BLS, but we include them here as wages because they are paid monetary compensation and included as wages in W-2s.

The appropriate comparison would be between teacher and private sector *total* retirement costs, including payroll taxes (primarily social security). As our Table 1 shows, K-12 teachers and all college-educated professionals (most of whom are in the private sector) now have the same share of compensation— 11.5% — in overall retirement and payroll tax costs. If teachers must give up defined benefit plans, those without Social Security will be alone among professionals in lacking any defined-benefit safety net. There is simply no painless, cost-free way to boost salaries by raiding the benefits piggy bank.

The *New* Commission's recommendation shifts the risk of retirement insecurity from school systems onto teachers. That this has happened more generally in the American work force does not excuse adding teachers to this race to the bottom. The nation had a serious debate about this two years ago, when President Bush proposed a partial privatization of Social Security. The bottom line then and now is this: hoping to make all workers (or all teachers) successful players in the stock market ignores that there are always market losers.

A great accomplishment of the past 50 years has been the provision of security to senior citizens by giving them a decent defined benefit. The nation now runs a huge risk as the private sector has, in recent decades, eroded this security by destroying private defined-benefit plans, and we are now threatened by

the loss of Social Security as well. School systems should resist this socially destructive trend, not exacerbate it. Reducing retirement security for teachers, as the *New* Commission proposes, will not help attract and retain high-quality teachers.

Note that, as shown in Table 1, teacher health insurance costs exceed those of all professionals. The *New* Commission does not propose to slash those benefits, probably because it understands that, with teacher salaries lower than those of many other professionals, the same health benefits can be a larger percentage of wages for teachers than for others. As teacher wages rise, this source of phantom savings will also dry up. In any event, cutting teacher health benefits would also be socially irresponsible and will make it harder to attract and retain high-quality teachers.

We have posted analyses[7] of several other recommendations of the *New* Commission on our website, as well as more detailed data and illustrations regarding our discussion here of trends in productivity, wages, and benefits.

Endnotes

1. We and our colleagues at the Economic Policy Institute have written elsewhere about such policies, and our views are consistent with those of the New Commission. See Class and Schools, Reforms That Could Help Narrow The Achievement Gap, Teacher Quality, How Does Teacher Pay Compare?, and Enriching Children, Enriching the Nation.

2. *America's Choice: High Skills or Low Wages* (Washington, D.C.: National Center on Education and the Economy, June 1990)

3. These trends are discussed extensively in Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007* (see especially chapter 3), and in Mishel's February 2007 Congressional testimony.

4. Andrew Sum et al., "Education and Labor Market Outcomes for the Nation's Teens and Young Adults Since the Publication of America's Choice: A Critical Assessment," paper commissioned by the National Center on Education and the Economy, 2006, available at http://skillscommission.org/pdf/commissioned_papers/Education%20and%20Labor%20Market%20Outcomes.pdf.

5. For further discussion of this issue, see Education and the Inequality Debate, by Jared Bernstein and Lawrence Mishel.

6. Alan S. Blinder, "Offshoring: The Next Industrial Revolution?," *Foreign Affairs* 85 (2): March/April, 2006.

7. Diane Ravitch has analyzed several of the *Tough Choices* recommendations that we do not discuss in this article. She concludes that "[T]here is a line between visionary thinking and pie-in-the-sky theorizing," but the *Tough Choices* report "is most assuredly on the wrong side of the line."

Anthony Carnevale, formerly associated with the New Commission on the Skills of the American Workforce, has specifically focused on the Tough Choices recommendation to abolish all school districts and make

every school a contract school.

And Mark Simon, formerly president of the Montgomery County (Md.) Education Association, assesses a number of the Tough Choices recommendations.

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