

DONDUNSTAN FOUNDATION

FOR A BETTER FUTURE



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The essentials for a decent working society in the 21st century

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Perhaps I should begin by saying that I started as secretary of Labor under Bill Clinton. When I started I was 6'2". It took a lot out of me. I got out before I vanished.

One thing the Premier did not say, and I was very glad that he didn't say about my biography but I probably ought to share with you, is that I am an economist. And as some of you know, an economist is someone who did not have the personality to become an accountant. How many of you did I just insult? If you could put up your hand please.

I want to talk about the economy. I want to talk about what's happening in the United States and the world. I want to put it in a little bit of a social context. Hopefully what I have to say may have some bearing on what is happening here in Australia, particularly in South Australia. I have been here only for a very few days. I've been enormously impressed by what I've seen. Every place in the world has great challenges; you obviously face some extraordinary challenges. But relatively speaking, relatively speaking, you are in a wonderful position, and you're doing a very, very credible job; all of you.

Let me begin by saying that mostly when we talk about economics, our focus is on the business cycle; where we are, how long the expansion will last, what's happening to equities and bonds and what's happening to for example, the sub-prime mortgage market in the United States. I worry about that. But beyond the business cycle there are some fundamental trends that are affecting all of us. And that really are shaping our jobs and our lives. And I want to mention three of those trends as a way of shaping the discussion that I want to have with you about the limits of what markets can do, and some of the things they do wonderfully well. And what we need as societies to understand is our responsibility collectively.

Trend number one is globalisation and also technological change; they go together. Rarely, by the way in human history, has a set of terms gone so directly from obscurity to meaningless without any intervening period of coherence as globalisation and technological change. Everybody talks about it, but in terms of understanding what these really mean.

The reason I put them together is that they really do belong together. You haven't had the degree of global integration we are now experiencing without extraordinary technological change, particularly with regard to telecommunications and transportation. That is what is driving global integration. We still hear, and I hear it all the time in the United States and I hear it even a little bit here in Australia. People refer to 'our companies'. American companies, Australian companies; there is still the notion that they're 'our companies', that somehow belong to particular jurisdictions.

And I want to suggest to you in terms of understanding where I'm going with this first trend, that is globalisation and technological change. That that concept of an American or an Australian or a Canadian or a Japanese company is becoming less and less useful

as a construct in terms of public policy, or thinking about where we all are. Because more and more this technology of globalisation, this integration, means that what we think is an American or Australian or any other company actually turns out to be a global company, with supplies and components coming from all over the world.

Years ago when I was secretary of Labor, my car died. I needed to get a new car. I went to the local dealer in Washington DC; a very good dealer. I found a Toyota that perfectly met my needs. I didn't buy it yet. I went back to my office and my assistant for political matters said in a very humble and very sycophantic way, the way some political assistants occasionally do – you probably don't have any of those people – said Mr Secretary, I understand you're going to buy a Toyota. But let me remind you, you are secretary of Labor of the United States, and maybe you should think about buying a big three car; General Motors, Chrysler, Ford. And I immediately saw the wisdom of this young person's political insight.

And I went the next day to a Ford dealership – you can't get more American than a Ford – and I found a car that was almost as good as the Toyota. And I remember on the floor of the showroom before I bought it, I asked the dealer, I said I know this is an American car, it has an American nameplate, but I need to know from you was this car actually made here in America by Americans. And he looked at me for a long instant, trying to decide, was I one of those or was I one of those. And finally he looked up with a smile and said, which would you prefer?

Because in fact all cars are made of components that are coming from all over the world; whether it's 35% American or 50% American or 60%, or 30% or whatever. It's very difficult and becoming increasingly difficult to find a product that really is, whether you're talking about goods or services, they are bundles of components. Value is added all over the world. And our tendency is to think that our standard of living is tied up with the success of companies which are located in our jurisdictions; and that's becoming less and less the case.

Standard of living depends more and more on the value that we generate and contribute to this increasingly integrated global economy; regardless of whether we're working for Toyota or General Motors or Ford or AT&T or Sprint or whoever, it doesn't really matter. If we're adding a lot of value we're doing to be paid pretty well. If we're not adding much value, we won't be.

And therein lies the key to a great deal of social decision making. And let me explain this, because hereto there is some confusion. In the United States there's a great deal of fear; I don't know if you have the same fear in Australia. But there's a great deal of fear in the United States about good jobs going to developing nations, particularly China. And when I was secretary of Labor it was beginning, but now there is a loud chorus in America coming from all walks of life. It is not just blue collar workers; it's also a lot of high skilled professionals. They say how can we go on because our jobs are going to Asia. If they're manufacturing jobs they're going to China, or they're going to India if

they're high technology jobs; we're going to be without jobs. And it's all because they can do it cheaper there; they can do it cheaper there.

And the reality is wages, yes, are lower in China and India and various places in the developing world. But it's not all about wages. Wages are only part of the equation. It's also about skills and about productivity and about the infrastructure that surrounds people.

I had my hips replaced a number of years ago; both hips. I wish I could show them to you; they're beautiful hips. They're really corrosion resistant steel topped with a little plastic coating; they're beautiful hips. But I was talking about globalisation in these terms, and I realised I had not made a very important inquiry; and that was where my beautiful new hips actually came from. A kind of existential doubt I had suddenly, and I went back to the hospital in Boston, Women's Hospital, where they were installed. And I discovered after somebody rifled around some files, that my lovely new hips were actually fabricated in Germany. That's not a low wage jurisdiction; that's a high wage. Germany is one of the major exporters in the world, not because of low wages, but because of high skills. If it were all about low wages, my hips would have been made in Bangladesh.

And by the way, my beautiful hips were actually designed – they were fabricated in Germany, they were actually designed in France. I have French designer hips.

A few years ago in America I could not admit that. I had to say liberty hips. We're beyond that now thank goodness. By the way, I should say parenthetically, I don't know how many of you have had hip replacements – medical science is just – we're all paying through the nose; all of us, for health care and for medical science. But hip replacements are one thing that has done very well. The only disadvantage, and I've had this again coming into Australia, when you go through the metal detectors, you can't take your hips out. They laid me face up on the luggage conveyor belt; humiliating, former Cabinet people watching me go by. No, they didn't do that.

But the point I want to make with you is that number one, it is about value added. And that value added number two, has to do with skills and productivity, not with low wages. And so where you are on the globe in terms of your capacity, you as a community, you as a set of people, you as citizens of South Australia, your capacity to add value through skills to this globally integrated system, is directly related to your standard of living. And will be in the future to a greater and greater extent.

Technology we also fear is wiping out jobs. It is wiping out a lot of jobs. We used to have a lot of telephone operators in the States; I don't know if you used to have them in Australia. We used to have a lot of bank tellers. I tell my students we had bank tellers; my students don't believe it when I tell them you had to actually talk to a person in order to make a deposit or take money out of a bank. They said really? They don't believe it.

We used to have service stations. Did you have them in this country where you took your car and people came out and talked to you? And did things like wiping your windows and checking your oil and things like that? It's all very quaint. People don't believe that anything like that ever happened.

There was a service station at the corner of where I lived before I went to Washington to be Bill Clinton's secretary of Labor, and there were people there. These things happen, the replication or the supplanting, the displacement of labour happens very, very quickly, because a number of years later when I came back and went to that same corner service station it was no longer a service station. There was nobody there. What happened to these people?

By the way, you know you are no longer a member of the President's Cabinet when you get in the back seat of your car and there's nobody in the front seat. It's a humiliating reality, but it does happen. I want to warn every politician here.

So what happened to all of these people who are displaced? If they don't have the skills, they do have jobs. It's not that they don't have jobs. We tend to think that the whole issue is the number of jobs. No, it's not the number of jobs. Unemployment in the United States right now is 4.5%; not much different from what it is here in Australia. It's not the number of jobs. People get jobs. The real issue is the quality of the job. And if you don't have the right skills and you are supplanted either by globalisation or by technology, where do you end up? You end up in the local service economy; retail, restaurants, hotel, hospital, surface transportation, child care, elder care. Important jobs many of these, but given the law of supply and demand, many of these jobs don't pay very much.

And so what we are seeing in the United States not surprisingly, is that this first big trend that I'm describing for you, globalisation and technological change, is driving a wedge in the workforce, in the population. If you are well educated, you are adding a great deal of value to the global economy. You have a larger and larger demand for your services globally. Technology is enhancing your capacity to deliver your services. Your wages are actually trending upward.

If you don't have the right skills, if you don't have much education, what is happening to you? Exactly the opposite. Globalisation and technological change are moving you in a direction in which you are either competing with software, or with global workers who can do what you do only much more cheaply. And forcing you into the local service economy in which you are making less and less money, and have less and less job security. That gap is widening.

In the United States right now, we have not seen this degree of inequality since the 1920s. And by some measures, we've not seen this degree of inequality since the 1890s; the era of the robber barons. I'm not suggesting anybody is at fault. What I've described is market forces. This isn't a nefarious plot by large corporations or anybody

else. The problem is the failure of the public sector, the failure of us as a community to respond intelligently and in ways that provide a more socially just response.

Now I said that there were three trends. Trend number two is a trend that you all live with, you understand. I will not spend much time on it, but it needs to be stated and that is environmental change. Some call it global warming; global warming is part of it.

The drought that you are experiencing or have experienced here in South Australia, I don't know that it's related to global warming. I don't know that it is necessarily related to the burning of forests in Indonesia or Chinese pollution; pollution coming from China's extraordinary increase in productivity through mostly factory production. It's not very clear what it is due to. It may be cyclical. It may not come back, but it may be a trend. Environmental degradation is something we all need to pay a great deal of attention to. And the word 'sustainability' in my book is not enough.

Because if advanced modern economy simply sustains the level of environmental cleanliness we already have, that's not going to be enough, given that developing countries have every right to develop. We have to embrace instead of sustainability, surpassability, if you want a word. You've got to do better than to simply sustain the level, because if India and China are – and they will by all accounts – moving up the economic development ladder, that means somewhat more pollution, even if they are using very good and able technologies to reduce it. That means that we've got to, as advanced countries, do even better.

And by the way, this trend, this second large trend, environmental degradation with a difficulty of even making the environment sustainable is obviously related to the first two. You can't separate, as I said, globalisation is making this a global problem. Technology is creating opportunities for solving it; that is wind and solar bio-mass technology perhaps. And we don't know whether this is good or bad. Nuclear technology, but technology may be part of the answer, but it also may be part of the problem. And I'll examine this further in a moment.

Trend number three; an aging society. In the United States we are aging. We are aging in the sense that we had a baby boom starting in 1946. Why starting in 1946? I was born in 1946. Bill Clinton was born in 1946. George W. Bush was born in 1946. Laura Bush was born in 1946. Ken Starr, who prosecuted Bill Clinton, was born in 1946. Cher, anybody who's anybody was born in 1946. Now why is that? Why did we all come into being in 1946? Because my father served in the second World War and he came home from the war and there was my mother; not very complicated.

But there is a demographic trend in the United States, and it's not all that different in other parts of the advanced economic world. And that trend is for a baby boomer to be getting older. And now almost within sight of retirement. Like a big wave, a huge wave heading towards the shores of retirement. Or what would be another metaphor; a pig moving through a python. A wave, a wave, moving toward the shore.

But you see what this means. And again, I want to focus on the consequences in terms of social equity. There is a generational equity issue here. There is also fundamentally a question of education and skills. The generational equity issue is simply this. As we baby boomers get older, we are going to be taking more and more social resources one way or another. Some of it is going to be health care; some of it is going to be pension protection. We have certain expectations for how we are going to live.

I say 'we', I don't know and I can't presume to know who you boomers in Australia view your future. But I can tell you in the United States, boomers have not saved very much. In fact most boomers are in debt in America. They thought they had in their houses a nest egg that has proven not to be a nest egg; it's more like a cracked egg, a squished egg, a scrambled egg. And that means that their vision of retirement is not realistic.

I go round the country asking people what they vision for their own retirements, and I get back what I call kind of a med, med vision of retirement. A cross between a Club Med and a medical facility. And of snorkelling in the morning and oxygen in the afternoon. But you see, it's not going to happen because there just is not enough money in the kitty. But the elderly in America, and I don't know whether it's the case here in Australia, the elderly have a great deal of political power. They have a great deal of political power partly because they have a lot of time on their hands to be political, and partly because they have amassed power in organisations like the Association of Retired People in America.

I don't want to in any way denigrate them. I want to maintain my life and my physical safety. But the point is that as the baby boomers become, and this huge generation retires, that political power is even going to be greater. And so the generational equity issue is going to be squared. Where are you going to get as a society, where are we as societies, going to get all the productivity we need to sustain the elderly.

And by the way, at the same time, health care costs are going up for all of us. It's not just the elderly. Of course the elderly are going to demand more health care per capita, but all of us are paying more for health care. Not necessarily a bad thing. We're all healthier. Life expectancy for most people in the United States now is about 78 to 80 years old. It's about the same in Australia. When I was born in 1946, life expectancy was about 63 years.

When Social Security, which is our guaranteed retirement program for seniors, went into effect in 1935, people were eligible for it when they reached age 65. But the life expectancy in 1935 was about 60. So it wasn't such a great deal. But now it's a terrific deal. So what do we do about rising medical costs? Again, the generation that is working post baby boom, the young people, are going to bear more and more of the cost of all of this.

Now that means there are only two places to get that kind of return from the post boomer generation. One is to make each member of the post war trough, if you want to call them a trough, that is a relatively smaller working generation, make each of them much more productive. Help each of them make more and add more value. And that again is where education and training and skills development comes from.

No way that they can support an aging society and an aging economy unless they are more productive. The second is immigration. Talk about the relationship between this third trend and globalisation; one of the major relationships is immigration. Never in the history of the world have we had a condition where aging populations are generally speaking in advanced post industrial countries. And you have at the same time developing nations that have larger and larger numbers of young people who are desperate to work, and often cannot find jobs.

What does that mean? That means we are all going to experience huge pressures for immigration from developing nations to developed nations. In the United States this has become a point of social tension. We have a lot of immigrants, both legal and illegally in the United States, from Latin America, from south east Asia. Many of them lack skills. Some of them who are there illegally are causing a great deal of soul searching by Americans who fear that those people, those new immigrants, are taking away our jobs or reducing our wages. It's not the case, by the way.

Those people are filling a very different labour market. They are doing jobs that most Americans would not want to do. They are not competing for the same jobs. But nevertheless, they are convenient scapegoats for demi-gods who want to blame immigrants for stagnating wages.

Now again, I don't presume to know very much, if anything, about Australian immigration policy. All I see and acknowledge, and you probably debate this all the time, is that you are on the cusp, on the edge of a huge Asian society or several societies, including Indonesia; 300 million people. And the most obvious question is to what extent is immigration going to be utilised in Australia to overcome this issue, this question, this challenge of an aging population. Global integration, globalisation is partly about immigration.

Now let me just summarise what these three trends, these three great big trends; globalisation and technological change number one – can't really separate them. Number two, environmental hazards and number three, this whole issue of an aging population. What do they mean? What do they have in common? Well number one, they have in common the necessity of understanding our social commitment and our economic stake in investing in human capital; investing in our people. Not just formal education, also early childhood education.

Most studies are showing that early childhood investments in stimulating pre-school environments pay off enormously for our societies; huge pay off. Investing in lifelong

learning. Investing in the soft skills, the employability skills the people need. Many people who are on the margins of society who you can't just say okay, here's some training course, because they actually need some understanding and some capacity to show up on time, to handle their own finances, to utilise all of the tools available to them. To actually take care of their own health. I mean they need life skills, employability skills, that cannot just be simply a matter of training.

And we don't want narrow vocational training, because remember technology is changing so fast, narrow vocational training is going to become obsolete very soon. What we want is to give people mastery over a domain of knowledge, so that they can use that mastery to go on to gain skills over a lifetime for themselves; learning on the job.

What we also can understand it seems to me from issues of intergenerational equity and migration, is that fundamentally economic growth does not and will not guarantee that the fruits of economic growth are equitably distributed. In fact, what we see in the United States is that the market is wonderfully adept at allocating resources according to narrow criteria of efficiency. Price signals are very useful for undertaking and understanding where resources need to be put in terms of their highest and best use. We don't want to override the market.

But it is also necessary to understand that the market itself is not going to give us social consequences that enhance social cohesion and enable everyone to share in economic growth.

Just to put a very clear fine point on this; in the United States over the past 35 years, the median wage of American workers, the worker absolutely smack in the middle of the wage scale, adjusted for inflation, has not grown at all. In fact, today's median wage in the United States is below what it was in 1970. Although the American economy is vastly larger, a third larger than it was then. How can that be? What happened to all that wealth? Where did it go?

Well the answer is again through nobody's conspiracy or fault, this is not a matter of blame, but most of that wealth went to the top 1%. In fact if you look carefully at that top 1%, most of it went to the top 1/10th of 1%.

Now what is the appropriate social policy there? Well I can tell you what the inappropriate social policy is. The inappropriate social policy is to reduce taxes on the very wealthy. I mean you don't have to be a rocket scientist to understand that if you are experiencing that kind of inequality because of the trends that I've described to you, that cutting taxes on the wealthy may not be the best way of achieving social equity.

There is something in America called supply side economics. I don't know if that has infected Australian discourse or economic thinking. But watch out for it, because supply side economics stands for a very simple proposition. You give tax cuts to people at the

top, and they will turn around and use their extra wealth and invest in factories and equipment and new invention and so forth, that will enlarge your economy and everybody will benefit. It will kind of trickle down to everybody.

Well the reality is that in a global economy if the rich have extra money, they're not necessarily going to invest in your own country. They're going to invest anywhere around the world they can get the highest return. And it may be that nothing trickles down. In fact, that is what we have experienced.

Instead of trickle down economics, what we need and what Bill Clinton tried to institute, was bottom up economics. You invest in people and their capacities to be more productive. You invest in systems and infrastructure that is going to spread the wealth, and that enables people right from the bottom, to grow the economy and participate in economic growth.

Now let me give you one example. In fact I'm going to close with this example and then invite your questions. And by the way, I'm happy to answer any question, even about the Clinton administration or my, in 1967 my date as an undergraduate with Hillary Rodham exposed actually two days ago in the New York Times. But I'm not going to talk about that now.

I want to close with an example that is close to your own environment and the issues you're dealing with. And I'm using it only as an example. And I also don't want to create the impression in your minds that I know very much about what I'm about to talk about; because I don't. I've only been here a few days.

But let's just take as an example, just as a way of stimulating debate in the context of South Australia, the uranium mine that is about to open and generate presumably a lot of jobs and a lot of very high paying jobs. And that is a great boon and a great benefit, and will be I assume to South Australia. And I also assume though that there are questions of social equity and environmental consequence and global environmental consequence that surround that.

For example if you have a mine opening that is going to generate a lot of profits, it is also the case that that mine is going to be a magnet for a lot of employment, because those mines need a lot of people. And so you may find that there are jobs for truck drivers that are being offered for \$150,000 a year. Now when that happens, what are the consequences, the social consequences, in terms of what happens to your teachers and your social servants and your people who are providing a lot of other services? I mean they may be attracted to the \$150,000 a year truck driver job. And that's not to blame them, because the market is the market is the market. The market is sending some very clear signals, but what happens to them and what happens to the communities they serve?

Or if there are police officers in communities nearby the mines who are hired by the mine as private security guards, at three times the price, who is going to do the policing? Or what happens to the small towns that are losing their population because the whole population is going to the places where the mine is offering those jobs and that infrastructure is being abandoned? And it's social infrastructure, real investments.

And what happens to the communities where they're close to the mine in terms of land grabs and speculation and housing and unaffordable housing? Housing that becomes rapidly unaffordable. And what happens with regard to the uranium itself? Is it going to be processed outside Australia? Are the jobs ultimately going there? Or will there be processing here? And then what happens to the protection of the uranium? I mean is there any social responsibility that anybody has to make sure the uranium is not misused in terms of how it is actually sold to the rest of the world?

And what happens to your policy with regard to immigrants? Your caring professions? If people are going to be attracted to the mine, then do you not need to open the doors to more immigrants who are going to do some of the elder care and some of the child care and some of the other caring things that can no longer be done by people who are now going up to the mines? And then what's to prevent the immigrants from going up to the mines?

I only raise these questions and they are only questions and I'm sure you've all considered them, to just state the obvious. And that is to make economic growth work for everyone, requires a very comprehensive understanding of the social costs and benefits of growth. And a very concerted attempt to spread the benefits of that growth.

Nations dependent on natural resources, and we have a lot of history about this, nations increasingly dependent on natural resources – what happens? Well their currencies rise, which means that's a good thing, but it means also their manufacturing becomes less competitive internationally. And it means that a lot of their other exports become less competitive internationally. And they become more and more dependent on the natural resource, so they become less diversified economically. And then the natural resource it turns out is subject to boom and bust cycles, because the people that demand the natural resources are constantly finding new natural resources around the world.

Again, I'm sure you're having this kind of debate. But it's the kind of debate that has not had nearly enough around the world as we allow markets to dictate to us what the social consequences are going to be, rather than look at markets as mechanisms that should serve our social needs.

Or to put it another way, we are not and should not consider ourselves to be passive recipients of what an economy generates. We are, at best, citizens who organise and reorganise an economy so that the economy serves us. It is a moral issue fundamentally, not simply a question of efficiency. And it's that morality that is often lacking in economic and political and social discussions. These are values. They are moral values.

They are values that at least in the United States, and to the extent that you want to use the United States as an example of where you could be going. This is, and consider my words, a little bit of a warning.

Because as much as I worked and Bill Clinton worked in the 1990s to widen the benefits of economic growth and prosperity, we did not do ultimately nearly enough.

Good luck, and thank you for coming tonight.

END OF TRANSCRIPT