

6-21-1994

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### Recommended Citation

Thurow, Lester C. (1994) "Education and Falling Wages," *New England Journal of Public Policy*: Vol. 10: Iss. 1, Article 6.  
Available at: <http://scholarworks.umb.edu/nejpp/vol10/iss1/6>

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# Education and Falling Wages

*Lester C. Thurow*

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**S**tart with a statistic that should be burned into the brain of every American. If one looks at young males eighteen to twenty-five years of age who work full time for a full year — eight hours a day, five days a week, fifty-two weeks a year — 18 percent of them could not earn a poverty-line income (\$12,183 in 1990 dollars) in 1980. Ten years later, in 1990, that number had risen to 40 percent. Among young female workers eighteen to twenty-four years of age, the percentage unable to earn a poverty-line income despite full-time, full-year work rises from 29 to 48 percent over the decade. If the unemployed and part-time workers are added into the statistics, 73 percent of the young people who worked in America in 1990 could not earn a poverty-line income. Between 1988 and 1992, two-thirds of the American workforce has had to take a cut in their real, inflation-corrected wages. Unless something is done to reverse the current one percent per year decline in real wages, the numbers are going to be much worse a decade from now.

The cause of the problem is clear. Economists know it by the name factor price equalization. In the days of an isolated national economy, the unskilled received a wage premium simply for being Americans. As Americans, they worked with more natural resources, more capital, and better technology than similarly unskilled people in the rest of the world.

But in a global economy, natural resources are equally purchasable, capital is equally borrowable, and technology is equally copyable with reverse engineering. As a result, those with third world skills will make a third world income even if they happen to live in a first world country — the United States. General Motors makes Pontiacs in Korea. An American seeking to work for General Motors can offer only two things — wages lower than that of a Korean or skills higher than that of a Korean. Anyone whose skills are below that of the average Mexican is going to find the North American Free Trade Agreement placing downward pressure on his or her wages. Why should any American company pay more?

Manufacturing wages and fringe benefits in Germany are 60 percent higher than they are in the United States, and eight other countries provide manufacturing wages similar to those of America. Germany pays those higher wages and has a trade surplus. America pays much lower wages and has a trade deficit. One has chosen to be

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world class by making the investments necessary to raise productivity; the other has chosen to be competitive by lowering wages.

If one wants to return to a world of rising real wages where children could expect to have a higher standard of living than their parents, the issue is not making American schools better but making them world class — anything less won't reverse the current imposition of wage reductions. The game is a relative one.

As a result, Americans must learn to benchmark on the rest of the world. To be the best school in America is to be a school that is not good enough. One cannot operate schools in America exactly the same way they are operated in the rest of the world, but American schools must find something in American history, tradition, and culture that allows them to meet the performance standard now being set by the rest of the world.

If one looks at the issue of wages, it is clear that world-class K-12 education is only the beginning of wisdom. High-wage societies must have a good system of post-secondary education for those who are not college bound. A good high school education by itself buys you very little in terms of higher wages. It is necessary but not sufficient.

Here one comes to the greatest gap in American education. There simply is no system of post-secondary education for the non-college bound in the United States. Government does not offer it and firms won't offer it because of labor force mobility. No one in the private economy wants to be the sucker who pays for skills only to find them hired away by someone else who has incurred none of the costs of producing those skills. Everyone wants to free-ride the training system. As a result, there is no training system.

The world is full of possible models of what might be done. The Germans have their well-known apprenticeship system. If one is not preparing seriously for a university, one is to be prepared seriously to learn a high-wage skill. When it comes to quality, no one doubts that the German apprenticeship system is better than the German university system. The French have their one percent of sales system: every French firm must by law contribute one percent of its sales to a training fund, which will be taken away from them if they do not use it to train their own workforce. No one is allowed to free-ride the system. Singapore uses "bonding." Those who receive training must sign a legal contract that specifies how they will repay the cost of that training by working for an employer for a specified period or by repaying the employer a specified amount of money. Other options exist.

All Americans could be endowed at birth with a Social Security \$15,000 training fund earmarked for their purchase of post-secondary training from their employers or colleges. The costs would be underwritten by a payroll tax, the same way that pensions and elderly health care costs are covered. There are many options, from which any country that wishes to be a high-wage society must choose one. But thus far America has chosen none.

No one can say what must be done in the American high school until such a post-secondary-education system for the non-college bound has been built. Like a jigsaw puzzle, the two systems have to fit together. K-12 education cannot simply "do its own thing" and then one magical day throw its graduates into the job market. Some of what needs to be done in a post-secondary skills training system is probably best done in schools. Few doubt that a gradual passage from school to work is an important part of a successful transition.

Three out of every four Americans will not be university graduates. They won't complete any program, but even if they did, there would be no traditional college jobs for them. Economies need college graduates, but not college graduates only. They need a mix of skills. If everyone completed college, most college graduates would have to fill lower-level jobs. Put bluntly, most of the skills America will need in the twenty-first century are not going to be learned at college. A skilled glass blower who can make one-of-a-kind instruments takes longer to learn the necessary skills than a graduate student takes to earn a Ph.D. The glass blower will earn more money than the average college graduate, but his skills will not have been learned at college.

One can worry about preserving mobility between different tracks, but one cannot design a system in which a single first-class track is only for the college bound. This is the heart of the problem in an egalitarian society: How does one design different systems without designing first- and second-class systems? In the United States, the vocational track has become a second-class course. It has to be made into a first-class track if wages are not to fall. ❧

*“The most successful firm in semiconductors in America recently announced it will produce its chips in Kyushu, Japan. It will make its chips there not because wages are lower — in fact, wages are higher than in either Silicon Valley or Route 128 — it will go to Kyushu, Japan, because it can get a skilled workforce it cannot get in Massachusetts or California.”*

*“America is faced with two choices: work for lower wages or offer skills higher than [Japanese or Korean] skills . . . So in some sense the standard for American education is not set here, it is set abroad.”*

— Lester Thurow