THE OPPORTUNITY PROJECT:

A NEW SOCIAL CONTRACT FOR A CHANGING WORLD

U.S. CHAMBER OF COMMERCE FOUNDATION
Center for Education and Workforce

U.S. CHAMBER OF COMMERCE

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U.S. CHAMBER OF COMMERCE FOUNDATION

The U.S. Chamber of Commerce Foundation is dedicated to strengthening America's long-term competitiveness. We educate the public on the conditions necessary for business and communities to thrive, how business positively impacts communities, and emerging issues and creative solutions that will shape the future.

INTRODUCTION

There is deep and growing concern about opportunity in America—along with renewed debates about rising inequality, the decline of the middle class, and whether the American Dream is more than just a dream. And from nearly every direction, the American free enterprise system has come under attack, with growing concern about its ability to make America competitive while producing the strong and inclusive growth necessary to advance economic opportunity and provide economic security.

We are seeing signs of this predicament everywhere. It is not uncommon to hear stories about the economic hardship and uncertainties that workers and businesses now face. For example, take the middle-class worker who lost his or her job due to a plant closing and whose only remaining opportunity in his or her community results in a loss in earnings, the underemployed youth who struggles to pay off student loans and fears for his or her long-term job prospects, the business owner who delays opening a new plant because he or she cannot find enough skilled and qualified workers, or the CEO who restructures a company in order for it to survive and worries about the workers who lack the relevant skills to continue on with the company. For many of us, these are not just stories but the experiences of family, friends, neighbors, and colleagues, if not our own.

> **If we are to continue to experience the growth we need to fuel our economic success, then we need a new social contract**

Much of this uncertainty is driven by a rapidly changing economy that has created a new economic reality for workers and businesses. Although the growth of this new economy has undeniably created opportunity, it has also generated economic insecurity—and the benefits this new economy have brought are of little comfort to those who feel left behind or who have not shared in its benefits. This situation will only become more prevalent as the pace of change in the economy accelerates. This conversation is not happening exclusively in the United States. It is one that has roiled industrialized and developing nations across the globe.

The debate on how to address these challenges has largely been framed by two opposing points of view, using traditional playbooks. One calls for government to play a more active role in managing the economy and sheltering citizens from the changes we are now experiencing—whether through expanding business regulations, increasing government funding for higher education, making available more targeted government programs, or expanding the government safety net. The second point of view looks to the private marketplace to reduce the role of government and cut back and streamline existing programs and regulations to create stronger economic growth and opportunity.

These two opposing points of view fail to gain broad support in America because of the growing distrust of both government and business and their inability to speak to the everyday challenges now facing employers and workers in the new global economy. This is the challenge of our time, and the business community must be part of the solution.

The U.S. Chamber of Commerce Foundation believes the free enterprise system has been—and will continue to be—the single greatest promoter of opportunity in America. If we are to continue to experience the growth we need to fuel our economic success, then we need a new social contract—one where business, workers, and government all share in the opportunity and risk that the new economy brings.

The social contract is understood here to be the shared understanding of the roles and responsibilities of each major stakeholder in the economy, including workers, business, and government as well as the guiding principles they use to carry out their roles. The old social contract on which we rely was built for a different era and a different economy, and it is ill-suited to address the challenge of our time. The new social contract must be equal parts public- and private-sector solutions that together create the new playbook for how we help employers and workers manage the opportunities and risks that come with change.

We at the U.S. Chamber of Commerce Foundation believe that America is ready to explore a new approach that stays true to our roots as a free market system. This system has provided unprecedented freedom, prosperity, and opportunity and can, in the future, provide more inclusive economic growth and advance even greater economic opportunity. We believe that this new approach can be best developed by engaging business leaders in a discussion on how American businesses can best compete on innovation and produce strong and inclusive growth through shared value creation, and how government can provide the incentives and regulatory reforms necessary to support businesses in doing it.

We also believe that government must work effectively with the business community but play a new and more indirect role in helping businesses and workers manage the growing risks of an ever-changing economy. This should be done by promoting and incenting new economic opportunities and risk management options for businesses and workers in the marketplace, while acting as the risk manager of last resort.[1]

The most important starting point in exploring this new approach is how we can develop, attract, and utilize the best talent in the world. There is broad consensus that America will increasingly compete on talent—especially in an innovation-based global economy. There is also broad consensus that the best way for America to compete is to encourage and incent more employers and workers to invest in education and training, while also helping them manage potential downside risks. However, the traditional playbook was not designed to address the investment risks now facing American employers and workers. We need to better guide workers, employers, and government in making investments and sharing in the risks of the new economy.

This paper first defines the challenges facing America in advancing opportunity and managing the risks in a world that is undergoing significant transition. It describes the major forces that are driving rapid economic change and the limitations of the traditional social contract in addressing the new types of risks that these changes create. From there, we explore the need for a new social contract whose guiding principles are equal parts public- and private-sector solutions. Next, we highlight some priority areas where new solutions based on the new social contract can be explored, through conversations with employers and major stakeholders. The paper concludes with an invitation for a national dialogue that can further develop and implement these new guidelines and potential solutions in these and other priority areas.

PART I:

OPPORTUNITY IN A CHANGING WORLD

MAJOR FORCES AND TRENDS IN A CHANGING WORLD

In our rapidly changing world, how can America compete in ways that produce strong and inclusive growth, advance economic opportunity, and manage economic risk? The first step in answering that question is coming to terms with the major changes that are producing new opportunities and risks (Figure 1).

FIGURE 1: MAJOR FORCES AND TRENDS IN A CHANGING WORLD

- Technology and Automation
- Global Trade
- Structural Changes in the Economy
- Changing Workplaces and Employment Relationships
- Changing Geography of Job Opportunities
- Declining Trust in Economic and Political Institutions

TECHNOLOGY AND AUTOMATION

Technology and automation combined with new business models and practices are transforming the economy and entire industries, and changing how work is performed at all levels of the workforce. In the past, these types of technological shifts have created new job opportunities while reducing others over longer periods of time. Although they were disruptive to the workforce and often imposed some hardship, they were manageable and adjustments could be made over time. The current wave of technology-based disruption and innovation has stood out in that the pace of change is accelerating across a wider number of industries and jobs. This pace and scope of disruption will challenge the ability of many employers, workers, and communities to adapt.

The impact of these changes can be clearly seen in manufacturing. Diminishing jobs in the manufacturing sector has long been seen as evidence that the industry is in a state of decline. In fact, there is no evidence to suggest that manufacturing is in decline. What we do know is that manufacturing has changed—in large part because of advances in production technology and the development of lean management practices that make the entire process more efficient and therefore more competitive. One study attributed up to 90% of the job loss in manufacturing specifically to productivity gains—or, in other words, 12.1 million manufacturing workers can now produce at a level that previously would have required 20.9 million workers.[2] We simply are able to produce more with less, and the jobs driving those productivity gains require higher skills and pay higher wages. No longer do we have routine tasks on an assembly line performed by low-skilled workers; instead, a highly skilled workforce must increasingly work with advanced technologies. The jobs of the past—simply put—are evolving in real time.

In the last few years there has been an increased focus on automation potentially affecting more industries and jobs in unexpected ways, impacting non-routine work at all levels of the workforce. Replacing driving and trucking with machines—an idea often perceived as futuristic—is now a reality.[3] Changes to the makeup and composition of the logistics industry workforce will be swift and sudden. Even professional and technical services, such as law firms or healthcare companies, are using advanced technologies to perform wider ranges of tasks and activities, enabling workers to perform higher-level and more non-routine work.

McKinsey Global Institute estimates that with the rise of artificial intelligence, as much as 45% of today's work tasks can be automated through currently demonstrated technologies.[4] More employers see these technological and related business model changes as major threats that often translate into significant skill set disruptions and faster rates of skill obsolescence.[5] However, many leading researchers see the prospect of both job loss and job gains through technological advances.[6] The challenge is how employers, workers, communities, and society as a whole can keep pace and manage both opportunities and risks.

GLOBAL TRADE

While trade has been a driver of change and a net positive to the American economy, it has also been the cause of job loss in industry sectors that have proven to be vulnerable to global markets and competition. Failure to acknowledge and meaningfully address the losers in trade has resulted in a recent explosion of pent-up frustration with globalization.[7]

The trade deficit has been a metric used to place America on the losing side of trade. In April 2016 the U.S. Department of Commerce announced that the trade deficit had risen to $37.4 billion.[8] On the surface this imbalance is alarming, but a deeper look into America's relationship with trade points to convincing evidence that America is better off with more trade, not less. Those benefits include:

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- **Market Access –** Over 95% of customers are outside of our borders, and we have not let this opportunity pass us by. Today the United States is the world's second-largest exporter of goods and services. Accessing global markets must remain a national competitiveness priority.

- **Increased Investment –** Trade has attracted jobs and investment within our country. America is the world's top destination for foreign direct investment. In 2015 the total amount of foreign direct investment totaled $384 billion.

- **Job Creation –** Trade has been an overall net positive for our workforce. Since 1980 our economy has gained about 54 million jobs, 30-plus million of which are the result of trade with other countries.

- **Empowered Consumers –** The interconnectedness of economies across the globe has developed some of the most sophisticated and competitive value chains that consumers depend on. Trade has passed cost savings down to consumers, enhanced the quality of life, and vastly increased the spending power of American workers and families.[9]

Even with these benefits, the resulting job loss in vulnerable industries has been traumatic to many. The inability to manage difficult trade-related adjustments has further deepened distrust in its benefits and has created a scapegoat blamed for job loss. Often the true source of the job loss is technology and automation. That is not to discount or take away from the very real adverse impact trade has had on many workers and their families, but—simply put—a job that no longer exists can't be re-shored.

Global trade will continue to be a major force that must be accounted for in our new economic reality. There will be more trade, not less, and countries that seek shelter from trade will have less access to customers, fewer investment opportunities, and fewer new jobs. Again, as with technology and automation, the major challenge is how we keep pace with change and manage both opportunities and risks.

STRUCTURAL CHANGES IN THE ECONOMY

The convergence of technology, automation, and trade has had a major impact on the structure of our economy and the industries that drive growth and job creation. The U.S. economy has shifted from agricultural and industrial to one with strong and growing technology and service sectors. Disruptive technological changes (e.g., information technology and biotechnology) are changing markets, products, and processes and enable business model innovations that are redefining the boundaries between traditional industries and sectors.

As a result of this change, the largest share of jobs with the highest pay is going to those industries that put a premium on education and skills. Cognitive and collaborative skills are now in demand. The economy powered by a less-educated workforce delivering routine tasks at economies of scale is a thing of the past. Today the biggest earning differentials are based on education level, with an increased focus on attracting workers with advanced education and degrees.[10] The resulting pressure on K–12 education and higher education systems to adapt to these changes has been immense.

This structural shift has produced a skills gap that has yet to be overcome. What was once considered a “gathering storm on the horizon” is now a full-fledged hurricane affecting the competitiveness of the very businesses on which our economy depends.[11] Over 90% of business leaders believe a significant skills gap exists in their respective industries today, and half cannot fill current job vacancies. At our present rate, we will have nearly six million unfilled jobs whose vacancies will weigh heavily on the growth rate of the economy.[12]

CHANGING WORKPLACES AND EMPLOYMENT RELATIONSHIPS

The convergence of technology, automation, and trade—along with new disruptive business models—has also had an impact on the workplace itself and traditional employer-employee relationships. The traditional top-down and closed business enterprise has given way to a more open and networked enterprise that is more agile and responsive to constant disruption. In many large companies, the traditional employment relationship characterized by stable organizational roles, career pathways, and employment security is likewise a thing of the past.

More open and fluid employment arrangements are now normal. Although these relationships have been common in many industries over the years, such as the entertainment industry and in small companies, they are now common in large and mid-sized businesses in all sectors of the economy. These more open and fluid models are being supported by new talent management platforms that enable the sourcing, hiring, management, training, and development of internal and external talent pools of the modern business enterprise.[13]

These changes are most evident in the rise of new business enterprises and employment relationships in the sharing economy, also known as the gig-economy and on-demand economy, such as ride sharing or home sharing. There are now challenges as to whether ride-sharing drivers should be treated as employees or independent contractors in this new economic reality. Some would prefer to have flexibility over their workload and schedule, while others want to enjoy the benefits of the sharing economy while still retaining the protections and benefits afforded to traditional employees, such as minimum wage guarantees and health care benefits.[14]

These changes have also disrupted how workers seek out professional services to pursue career opportunities, carry out their work, network with others, and access benefits normally provided through traditional employment relationships. Although professional associations and labor unions have historically provided these services and benefits to workers—and will continue to do so—many other groups have begun to think about how they can play new roles. In addition, other types of intermediary organizations—such as staffing and professional services companies, business incubators, and shared workspace companies—have begun to enter the marketplace and are now providing services in ways that will drive and enable even more change in business enterprises, employment relationships, and the talent services landscape.

> **This lack of geographic mobility will have major implications for maintaining a globally competitive workforce and advancing opportunity—especially among low- and middle-income workers.**

CHANGING GEOGRAPHY OF JOB OPPORTUNITIES

The American economy has seen significant change in terms of the geographic distribution of economic opportunities. Major cities and metropolitan regions have disproportionally benefited from the restructuring of the economy. While these places have experienced population growth and increased economic activity, many small to mid-size cities and rural areas have experienced stagnation—if not decline. Many American cities that once made up the bedrock of the old economy are hollowing out.[15]

In addition, America has gone through a major regional redistribution of job opportunities, with the strongest growth in the South and West and lagging growth in older population centers located predominantly in the Northeast and Midwest. These two trends have resulted in widely varying employment and advancement opportunities in major metropolitan areas—especially for low-income workers with limited education.[16]

Given these trends, one might assume that workers and families would migrate to wherever the economic growth and economic advancement opportunities lie; this has not been the case. Instead, we find that workers and families have been unable or unwilling to move from low to high-opportunity regions. Recent studies have shown that internal migration in the United States is at a 30-year low, with falling migration rates for most demographic and socioeconomic groups and geographic areas.[17]

It is becoming increasingly clear that the American economy is a common market of state and regional economies that compete with other subnational economies throughout the world. Global cities in this country compete for business investment and talent with other American global cities and global cities in other countries. This is also true of smaller metropolitan areas that serve as manufacturing or transportation and distribution centers, and of rural regions that compete in the agricultural sector.

It is also becoming clear that the American common market of state and regional economies is not providing the labor force mobility needed to adjust to global economic changes and the shifting geography of opportunity in the United States. This lack of geographic mobility will have major implications for maintaining a globally competitive workforce and advancing opportunity—especially among low- and middle-income workers.

DECLINING TRUST IN ECONOMIC AND POLITICAL INSTITUTIONS

As the economy has undergone rapid and disruptive changes that have an enormous impact on people's lives, trust in the very institutions that bind us as a society has diminished. Americans have historically shown strong faith and support for the American free enterprise system.[18] However, the recent Great Recession and other factors have brought about growing distrust, especially for large corporations and the financial services sector.

The same is true for our political institutions and government. Beginning in the 1960s, Americans reported a growing distrust of government institutions, with many individuals wanting government to do more to better their lives but not trusting that government could be effective in doing so. American trust levels in government reached historic lows in the early 1980s and continue to remain low to this day.[19]

In response to this distrust, state and local governments started reinvention initiatives, with federal government reforms beginning in the Reagan administration and continuing through the Clinton administration and beyond.

These reinvention efforts occurred in parallel with a larger conversation about the type of free enterprise systems that would take hold globally in both developed and developing countries. Many countries, not just the United States, were asking the question of what role governments should play in a global free enterprise system, with some arguing for government to protect its citizens and economy from competition and others arguing for market forces to be unfettered in delivering on their promise to expand wealth and freedom. These questions became more pronounced as competition arose between leading industrialized competitors such as Japan and Germany in the 1980s and then China and other developing countries in the late 1990s and into the current century. The result of this debate and the growth of global competition has been growing disagreement on the role of government in addressing current challenges in the global economy.

The debate today is much deeper than whether government should play more or less of a role, and instead asks what that role is, at the federal, state, and local levels, and what tools of action should be used in a rapidly changing global economy.[20] Workers, businesses, and communities find themselves stuck in a state of distrust, confusion, and inaction when it comes to the tools that government should use to help navigate a world in transition.

PART II:

CHANGING RISKS AND THE NEED FOR A NEW SOCIAL CONTRACT

CHANGING RISKS

The economic forces and trends we have profiled have converged in new and unexpected ways, creating an environment that differs from anything we have experienced in the past. They have combined to create a major change in risks for employers, workers, and government—risks that have not been fully addressed in the traditional social contract.

Over the years, as America made the transition to the modern industrial economy, the social contract in talent development between employers, workers, and government evolved. This contract assumed the growth of a new type of business enterprise that had relatively stable and predictable product markets and industry structures. These enterprises provided long-term employment relationships and investments in training that would provide returns over a significant period of time for both employers and workers.

If workers played by the rules and invested in their education, got the right credentials, and worked hard in their jobs, then they would enjoy family-sustaining incomes and economic security for the normal working life leading to retirement.

Government would provide the funding for initial K–12 education and share in the cost of postsecondary education, and employers would provide continuous training in the workplace to keep skills current to retirement and provide employees with education benefits to further their careers. Over the years, this traditional government role would expand with an array of targeted small-scale employment and training programs designed to address specific problems affecting specific populations—such as workers dislocated by global trade or those facing multiple barriers to employment. But, in general, government's direct role was largely in the front-end initial investment, while playing a more indirect and supportive role in providing tax incentives for further employer and worker investments.

Employer, worker, and government investments would be guided by public and private workforce planning, including government projections on changing employment patterns at the national, state, and regional levels. This workforce planning supported by new government statistical systems would provide the basis for improving initial secondary and postsecondary investment decisions for government, students, and workers.

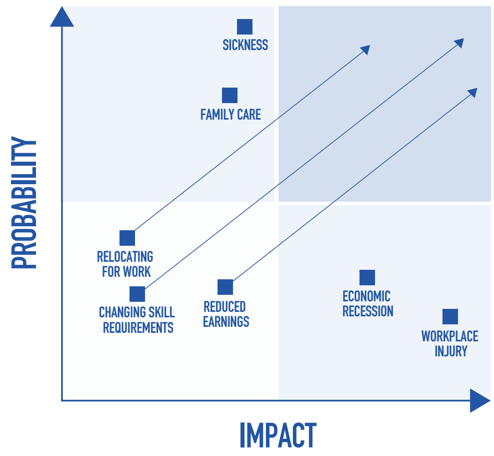
In terms of the safety net, employers, workers, and government would share in the costs of worker benefits and risk management tools that addressed the most important and widespread risks in a modern industrial economy. This included unemployment insurance for managing the risks of reoccurring economic downturns and recessions, workers' compensation insurance for addressing the hazards of the modern workplace, health insurance for accessing expanded health care services, and retirement benefits to pay for longer retirement years. Recently, this safety net has been expanded to family care for children and parents in response to changing labor force participation patterns and family structures.

Government complemented these benefits and risk management tools with a regulatory structure based on traditional employment relationships. Government provided regulations based on the traditional roles of management and labor and traditional employment relationships such as salaried and hourly workers. These regulations also addressed wages, work hours, and working conditions including health and safety and environmental management.

In the traditional social contract, government also would take most of the responsibility for workers at the margins of the labor market and for those not able to participate in the labor market at all. This safety net was built piece by piece, with targeted federal and state programs providing different benefits for different populations (e.g., single-headed households with dependent children and people with disabilities), including income support, housing, food assistance, and support services. These safety net programs were administered through federal and state programs that were accessed via offices located in communities where it was assumed workers would continue to live for most of their working lives.

As shown in Figure 2, this traditional social contract has focused on risks that are still with us today, but it does not fully address the new risks associated with the five major forces in the new economy. Specifically, the traditional social contract does not address education and training investment risks, such as the need for continuous investment that may or may not pay out. It does not address the new risks on earnings fluctuations from structural shifts in the global economy, or the constantly changing employment opportunities associated with more open and flexible employment arrangements. It does not deal with the increased need for workers to frequently move across states and regions—and even globally—to pursue economic, education, and training opportunities.

FIGURE 2: CHANGING RISKS FOR WORKERS



CHANGING TALENT DEVELOPMENT RISKS

To remain competitive, employers, workers, and government must increase education and training investments while managing the new risks associated with these investments. The traditional social contract has amplified the education and training investment risks of workers and government. As a country, we have increasingly outsourced the workforce training function to our education system in ways that have reduced responsiveness to business needs and greatly increased investment risks for individuals and government. This has been made worse by rapidly changing business needs in the new economy in combination with longer lead times to prepare a college-educated workforce through the traditional social contract. The result has been a growing skills gap as education and training have become more and more untethered from employer needs and workplace application. The implications of this growing disconnect can be seen in the uneven returns achieved through our government education and workforce training investments.

In the old social contract, our society believed that all individuals should graduate from high school prior to entering the workforce. Today the focus has shifted to getting all potential workers some form of postsecondary education or training in order to meet the more advanced education requirements of our economy. Students and families have gotten the message. We have higher college access rates than ever before, and most students agree that their decision to continue in their education is based on economic need and a desire to be employable.

This need to "skill up" our population has resulted in massive federal investments in a higher education system—largely through federally backed student grants for low-income families and loans for everyone else. Since 2000, the federal government has issued well over $300 billion in Pell Grants for low-income students to attend degree-granting colleges or universities.[21] The current debt in student loans—the primary financing mechanism for higher education—stands at a record $1.3 trillion.[22] The current attrition rate for students attending four-year universities stands at about 40%, and the attrition rate for two-year programs is even higher. During the economic recovery, over half of credentialed young adults were believed to be unemployed or underemployed.[23]

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Recent attention on the skyrocketing cost of tuition, dismal college completion rates, high levels of debt, poor loan repayment rates, rising student loan defaults, and poor employment outcomes have prompted many to question higher education's return on investment. Today there are many calls to improve the performance of higher education and to focus more attention on learning outcomes as well as loan repayment rates and employment transitions.[24]

Once an individual was employed, the employer's obligation was to provide him or her with some on-the-job training and professional development. Employers do commit a substantial amount of resources to incumbent worker training, and many offer benefits such as tuition reimbursement to help existing workers acquire additional education and credentials.

However, employer investments in worker training are widely perceived to be inadequate, and existing benefits to help workers upgrade their skills go largely underutilized—whether because of perceptions on the part of the workforce that upgrading skills is unnecessary, the unwillingness or inability to make the investments necessary for reimbursement later, or the immense challenges and barriers facing adults who need to balance work and life obligations. Employers invest approximately $177 billion annually toward direct workforce training, which includes all investments made in incumbent workers for training that occurs outside the delivery of their primary work tasks. It is estimated that more than 60% of employers offer some type of tuition reimbursement; more recently, some companies have offered to pay down existing student loans as a workplace benefit. Employers invest an additional $347 billion annually for on-the-job training.[25]

This largely linear path was built on the idea that your education and skills development is something that mainly occurs before you are employed, and any training you receive thereafter is based on the idea that you have become unemployed and need to be reintegrated into the workforce quickly. It is not well suited for continuous talent investments that the new economy now requires.

A steady growth of many targeted federal training and safety net programs for particular populations under very specific conditions has resulted in very complex eligibility and benefit policies and regulations that are not easily applied to the current reality facing many workers. For example, Trade Adjustment Assistance was developed for workers whose employment status was affected by trade, as if the cause of displacement—whether from trade, automation, or the restructuring of the economy—was even possible to determine or mattered.

> Now is not the time for incremental improvements to an old playbook; instead, we need transformational thinking.

Today the U.S. government spends roughly $18 billion annually on workforce and job assistance programs that encompass 47 programs administered by 9 federal agencies—and there is little to show for it. Even with all this spending, less than 10% of unemployed individuals receive services, and less than 1% receives any training at all.[26] Few if any studies have been conducted to measure the effectiveness of programs and spending over decades. When studies have been conducted, they have found lackluster results.[27]

NEW REGULATORY RISKS AND CONSTRAINTS

These workplace benefits and risk management tools were complemented with workforce regulations that were based on the traditional employment relationships defined by salaried and hourly employment relationships, with defined work schedules and workplaces. They also defined regulations for managing the workplace, including environmental and health and safety regulations. These traditional workforce regulations are now creating regulatory risks and constraints for employers that are implementing more open and networked enterprises, which in turn give them the flexibility needed to be more competitive in an innovation-based economy. They also are creating regulatory risks and constraints for employers who are implementing environmental and health and safety management systems based on leading global and national standards and professional practices that may or may not conform to government regulations.

LIMITATIONS OF GOVERNMENT DATA INFRASTRUCTURE

The government workforce data infrastructure was originally developed to support the planning and management of the macro economy and to promote long-term forecasting and projections of labor market needs for a relatively stable and growing industrial economy. In more recent years, the government data infrastructure has been used to support consumer information for guiding students' and workers' choices of careers and education and training investments. However, this data infrastructure is currently not designed to offer guidance for the wider set of investment decisions now being made by employers, workers, and government for the new economy, nor is it designed to foster the development and use of leading risk management instruments and tools that are now needed in the new economy.[28]

LIMITATIONS OF THE SAFETY NET

The social contract designed safety nets during a period when American competitiveness in the global economy was never questioned. As a result, the unemployment insurance safety net was designed to adjust for periodic economic downturns and temporary spells of unemployment. It was not designed for an economy with continuous economic transformations, highly fluid employment relationships, and high levels of earnings fluctuation.

With the exception of the Earned Income Tax Credit (EITC)—an innovative program designed to help low-income families stay out of poverty by providing a tax credit that is based on income level and that rewards work—the safety net was never designed for workers whose earnings would constantly fluctuate and who would be in and out of poverty over their lifetimes. Rather, the safety net was created to address the specific needs of targeted populations that face specific barriers to employment, with each population having different eligibility requirements and different rules. The result is a complex maze of federal and state programs that cannot be easily redesigned to meet the new risks. And while the poverty rate has not diminished, spending on means-tested programs (e.g., housing and nutrition assistance) has risen sharply and unsustainably; it accounts for nearly $1 trillion in federal and state spending administered by a vast federal bureaucracy of 13 federal agencies and 80 different programs.[29]

THE TIME FOR CHANGE IS NOW

We have reached the limitations of the traditional social contract, as well as the government policies and tools used to manage it. Now is not the time for incremental improvements to an old playbook; instead, we need transformational thinking. We cannot double-down on failed strategies built for the past—we must go forward boldly with a new playbook that is designed to confront the new economic reality head-on.

What is needed is a new approach that builds on our competitive strengths—one that is designed to address the new opportunities and risks of an innovation-based global economy. To do this we must challenge long-standing assumptions about the relationship between workers, business, and society.

PART III:

GUIDING PRINCIPLES FOR A NEW SOCIAL CONTRACT

A NEW PLAYBOOK FOR AMERICAN COMPETITIVENESS AND OPPORTUNITY

As previously defined, the social contract is the shared understanding of the roles and responsibilities of each major stakeholder in the economy and the guiding principles they use to carry them out. These shared understandings and guidelines provide the playbook for competing in the new economy. The new social contract must be built to address the challenge of our time, and it must be equal parts public- and private-sector solutions to restore trust in the American Dream. This new playbook will lay the foundation for how we build a skilled and competitive workforce and how workers manage the opportunities and risks that come with change. To remain globally competitive and address the new economic realities, the new social contract for employers, workers, and government should be developed using a new set of guiding principles (Figure 3).

FIGURE 3: GUIDING PRINCIPLES FOR DEVELOPING THE NEW SOCIAL CONTRACT

- Innovation and Risk Sharing as the Foundation of a New Social Contract
- Businesses Create Shared Value
- Workers Are the New Entrepreneurs
- Creating and Promoting New Risk Management Products and Services
- Government Reinvented to Promote Innovation and Share Risk
- Public-Private Data Infrastructure for Investment and Risk Management

INNOVATION AND RISK SHARING AS THE FOUNDATION OF A NEW SOCIAL CONTRACT

The new social contract rests on three important foundations. The first is that we as a nation will compete on innovation by leveraging the competitive strengths of the American free enterprise system. American businesses will compete on how well they develop and engage workers to drive and support innovation, resulting in new and improved products, services, processes, and business models as well as scientific and technological advances.

At the same time, American workers will be in a race to gain the education and experience necessary to do the most critical innovation work in the most competitive American workplaces—all while facing growing pressures to their jobs brought on by major forces in the new economy.

Government should not act to prevent or slow down the "creative destruction" of the innovation necessary to drive economic growth and opportunity; instead, it should do everything possible to encourage it—while ensuring that the rewards are shared by employers and workers alike.

Next, we need to encourage investments in education and training that promote and support innovation. This will require even more aggressive and continual investments in the face of growing investment risks brought on by constant, unpredictable changes in the economy.

As a result, the third foundation is that this investment must be supported by risk sharing, especially as it applies to the investments to and returns on talent development.[30] Every day we as a society manage and share risks, and we have become increasingly adept at using risk management practices and products.

Risk management is not about eliminating or avoiding risk; on the contrary, risk management is about anticipating and mitigating downside risk in order to take more calculated upside risk that yields better opportunity and returns. We frequently manage downside risks when it comes to our homes and property by pooling our risk with others. Many share their short-term and long-term health risks with their employers through health insurance products. We also manage upside risks, such as when someone takes out a government loan to attend college or a loan from a bank to start a new business, with the hope that he or she will reap better economic rewards later. However, we have yet to fully apply risk management thinking and innovation to talent development in the new economy.

In today's new economic reality, the most critical risks are talent development risks for both employers and workers. This is because, as previously argued, if America is to compete in an innovation-based economy, we must compete on talent. Because the risk factors facing these constituencies are fundamentally different than anything we have experienced before, we need a new playbook for advancing opportunity—and the related tools and resources that empower the workforce to manage new risks in better and more creative ways. What is more, at a time when we need to be a nation of risk takers and entrepreneurs at every level of society, we have instead become risk averse. The new social contract must have the right set of policies and tools that incent and reward businesses, workers, and communities for both taking and managing risks, not avoiding them.

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BUSINESSES CREATE SHARED VALUE

The new social contract begins by businesses creating more inclusive economic growth and shared value for workers and communities.[31] Companies are under tremendous pressure in today's economy to constantly innovate and reinvent themselves. One of the consequences of this uncertain business environment is a growing disconnect between the business community and the workforce in terms of their obligations to each other. This disconnect has manifested itself in growing suspicion that the business community is only in it for itself and should not be trusted.[32]

However, the free enterprise system is not the problem; rather, it is the very thing that advances economic opportunity and upward mobility for society. What has been missing is the new social contract that redefines the role and obligations of the business community to share in the risk inherent in the new economy. Through a new social contract built on sharing both risks and returns in the new economy, we can restore the bond between the business community and the workforce. With improved risk management and risk sharing tools and strategies, the business community can fuel a free enterprise system that creates shared value and promotes inclusive growth—while not sacrificing the unique benefits achieved through market competition.

Using risk management and risk sharing strategies, many types of shared value creation can be supported though a new free enterprise system. First, employers can better share with their employees in the risk of economic shifts and changing skill requirements in the context of new employment relationships. Second, employers can better promote economic advancements for more workers and tap into the benefits and opportunities that are unlocked when workers are upwardly mobile and pursue a wider range of career pathways. Third, employers can better share risk with the government and the communities in which they reside. And last, the private sector is uniquely positioned to unleash innovation and develop the next generation of risk management products and services to help workers and communities better manage risk.

WORKERS ARE THE NEW ENTREPRENEURS

Today's economy requires all workers to be entrepreneurial when it comes to investing in and upgrading their skills. That means workers must constantly drive and support innovation as well as adapt to the changing requirements of the new economy, while also sharing in the benefits and opportunities these changes bring. This requires a workforce that is always investing in and reinventing itself but that has the right supports in place to help get people back on their feet quickly if and when job loss occurs.

Today's workforce needs to come to terms with the fact that economic uncertainty and job insecurity is a constant in the new economy. At some point in a worker's career—if not at multiple points—a person's skills will more than likely be out of date or a worker's place of employment may move or close because of shifting market conditions. Rather than being sheltered from these risks, workers need to be supported in anticipating and mitigating these risks—all the while managing investments in their future and being rewarded for doing so.

There are three types of entrepreneurship activities in which workers must now engage. First, workers must take an equity stake in their future. Second, they must persistently manage changing skills requirements to stay ahead of changes in the economy. And last, workers must be flexible and dynamic in navigating the labor market—while being supported by portable benefits.

CREATING AND PROMOTING NEW RISK MANAGEMENT PRODUCTS AND SERVICES

As part of shared value creation, the business community can unleash the full power of market-based risk management products and services (e.g., insurance) that can be designed to manage the risks and opportunities of the new economy. For example, the threat of displacement is a constant, but how we choose to manage that risk is in our hands. Currently, if workers find themselves laid off, they have the option to collect unemployment benefits and potentially leverage other government-administered supports. Unemployment benefits are capped at a low level, are paid out incrementally over time, and can act as a disincentive for reentering the labor market. This can cause major life disruptions for those who have assets tied to a particular income level but find their income substantially reduced.

Instead, workers—particularly those in the middle class—should have other options available to them for managing instances of unemployment or other types of earnings losses. In particular, individuals should have an alternative or supplemental wage insurance option, provided by the private sector, where higher-income workers hedge their bets that they may suffer reduced work time or layoffs. Similar to life, fire, and auto insurance, individuals should be encouraged and rewarded for purchasing wage insurance in the event that they find themselves unemployed. This wage insurance also could address other causes of income fluctuation.[33]

Another example is new market-based insurance products that can help workers manage the risks of declining home values when an economic event occurs.[34] Declining home values can make it virtually impossible for low-income and middle-class families to leave their communities. The largest investment—their home—can become their greatest liability. They become trapped in the very communities they may need to be transitioning from, and they are dis-incentivized from making the very adjustment that is needed to avoid long-term unemployment and earnings loss. New types of home value insurance can provide partial payments for significant drops in home values within communities when such an economic event occurs. When the value of similar homes in the affected area drops collectively, this insurance plan would help families sell their homes for a loss more quickly and transition to a community within or outside their state. Future efforts to explore these risk management concepts could build on previous designs and experiments in New York and Illinois.[35]

New risk management products and services extend beyond insurance but can also include new ways of financing and supporting education and training. For example, innovative financing instruments are challenging the way we think about investing in education. These new financing instruments are called income sharing agreements (ISAs), and they are a promising approach that exemplifies risk management practices for investing in our future workforce. Rather than individuals taking a debt-based approach to their education, ISAs provide an opportunity for an investor to take an equity stake in that individual's success. By covering the cost of education and training up front, the investor has a percentage stake on future income earned, for a defined period of time.[36]

Employers and workers can also share risk through innovative benefits. For example, employers can also help incoming workers pay for college by securing better lending options or by directly financing the cost of their education or training. Some companies are now even experimenting with benefits that help their employees pay down existing student loan debt.[37] Employers can also play a major role in creating flexible mechanisms for workers to invest in continuing education and training. Employers could build on previous efforts to provide lifelong learning accounts and individual training accounts that involve employer matching contributions for services, much like healthcare savings accounts work today.[38] These benefits could be provided alongside even more flexible benefits for healthcare and family care. Government also could provide additional incentives for employer training investments that result in shared value much like credential attainment that results in earnings gains.[39]

Lastly, companies like AT&T are innovating how businesses can help their workers by providing training as a benefit. AT&T partnered with Udacity, a micro-credential provider, to provide access to a wide array of industry training and credentialing opportunities for its workforce. AT&T has gone through major restructuring as a company and will continue to do so. Being up-front and honest with its workers about the economic uncertainty they all face led to providing the workers with access to industry training to keep their skills updated—training that can help them transition to another company should they find themselves displaced.[40]

GOVERNMENT REINVENTED TO PROMOTE INNOVATION AND SHARE RISK

The new social contract calls for government to play two important roles. The first is reducing barriers to the new business enterprise and the new employment relationship, which will allow employers and workers to innovate and adapt quickly to changing opportunities. This will require collaboration with business in order to design new employment regulations that are critical for competitiveness and to create shared value in the new economy.

The second is managing risk. This requires government to forge new partnerships with the private sector to activate market mechanisms for managing and sharing risk, while still serving as the risk manager of last resort. This will require the federal government to expand the use of market tools of action that are designed to improve the performance of markets.[41] Federal policy should promote risk taking and a culture of change, not shelter individuals and communities from making the critical decisions they need to make in the new economy. The alternatives would be to significantly expand government programs and spending to unsustainable levels or to reduce the role of government at a time when families and communities are in desperate need of some type of safety net.

> **Government must be reinvented at every level, and states, regions, and communities must be empowered to manage their future like never before.**

Instead, government must be reinvented at every level, and states, regions, and communities must be empowered to manage their future like never before. The pace of change in today's economy is too fast and too unpredictable to be planned for in a centralized way. Communities are on the front lines of the changes taking place in the new economy; therefore, they must be empowered to manage those changes through diversifying their assets and improving their connection to the regional and global markets on which their competitiveness will increasingly depend.

Communities should be given new investment tools that allow them to hedge their risk when it comes to major economic development initiatives. They must also be empowered with data through a new public-private data infrastructure that provides more market transparency and the information necessary to make calculated investments and manage risks.[42] States and communities must be the laboratories of innovation they once were—where the social contract can be restored.

Government can also be the risk manager of last resort—but in ways that partner with the private sector so as not to absorb the full cost and risk of economic shifts and hardship. There is currently a debate on providing what is referred to as a universal basic income (UBI). This is based on the idea that the best way to combat poverty in a rapidly changing economy is to ensure a certain standard of living through an income made available to any citizen once they reach a certain age. Much of this debate is driven by fear of technology, automation, and the threat of large-scale, permanent worker displacement—.[43] However, this debate is also largely occurring without extensive data analysis on its costs and impacts on worker investments and engagement in the labor market and how it could replace or be integrated with existing safety net programs. One promising alternative that also should be explored is how an expanded EITC can replace a large and growing array of means-tested programs intended to combat poverty and achieve many of the objectives of the UBI—but in a way that is designed to meet the needs of those at risk of constant earnings fluctuations and poverty and that rewards work without the downside of a "welfare cliff."

Risk sharing and risk management strategies and practices can allow government at every level to reinvent its role in supporting workers, businesses, and communities. First, government can incent more risk taking by workers and businesses through tax policy. Second, government can empower communities to manage their future in a rapidly changing economy. Last, government can play the role of risk manager of last resort—but in such a way that promotes partnerships with the private sector and supports an entrepreneurial workforce.

EXPLORING THE NEW SOCIAL CONTRACT

These guiding principles are the basis for exploring new solutions to the most critical challenges facing America in advancing opportunity and managing risk in the new innovation-based global economy. We now propose how these guiding principles could generate new solutions for these challenges in six priority areas (Figure 4).

FIGURE 4: PRIORITIES FOR EXPLORING PUBLIC-PRIVATE SOLUTIONS BASED ON THE NEW SOCIAL CONTRACT

- Talent Development
- Earnings Risks
- Regulatory Reform
- The Safety Net
- Regional Innovation and Risk Sharing
- The New Public-Private Data Infrastructure

TALENT DEVELOPMENT

The traditional social contract separated the roles of employers and government in talent development, with employers investing in training of their employed workers and government focusing on initial secondary and postsecondary education. This traditional contract is no longer applicable because of rapid economic and technological changes, the changing nature of employment relationships, and the growing disconnect between employers' needs and government-financed secondary and postsecondary education. What is needed are new incentives and risk management tools for both employers and workers to increase their investments and for employers to become more engaged in working with education and training providers in developing talent. The new social contract could improve the balance in how government incents and manages the risks of workplace-based education and training as well as the more traditional education and training provided at educational institutions.

EARNINGS RISKS

The traditional social contract focused on two major types of earnings risks—those due to economic downturns (e.g., unemployment insurance) and to global trade (e.g., Trade Adjustment Assistance). However, the new innovation-based global economy will have a much broader set of earnings risks that are beyond the scope of the traditional contract. Because of this, earnings risks will be more difficult to manage with narrow government programs because the specific causes of employment and earnings losses will be even more difficult to tease out. What is needed is a more comprehensive set of risk management tools—including work sharing and wage insurance—that allows workers to more easily share and manage these risks.

REGULATORY REFORM

The traditional approach to workplace regulations was based on traditional employment relationships, workplaces, and labor market dynamics. The new approach should explore how to design new regulations to promote innovation and flexibility in employment relationships, while managing risks in ways that produce the most shared value for employers and workers and reduce employer regulatory risks. This should include new approaches to workplace regulations in environmental and health and safety management that protect workers while reducing employer regulatory risks. Finally, this new approach should explore the redesign of occupational regulations (e.g., occupational licensing) to increase economic opportunities and worker mobility across states.

THE SAFETY NET

The traditional approach to the safety net is designing highly targeted means-tested federal programs that address specific populations with varying incentives and requirements for work. The new social contract should explore the redesign of the EITC or similar approaches to better incent work, education and training investments, and worker mobility across states, portable benefits, and it should be more tightly integrated with risk management tools to manage earnings risks.

REGIONAL INNOVATION AND RISK SHARING

Competing on innovation will play out in states and communities across the United States. The traditional approach placed strong emphasis on assisting regions and communities facing major economic stress, but it did not provide strategies and tools for helping them manage and share risks in cooperation with employers and workers. The new approach would focus on risk management rather than just assistance in recovery from major economic decline.

THE NEW PUBLIC-PRIVATE DATA INFRASTRUCTURE

The traditional approach focuses on developing and using government data systems designed for a different purpose in a different era. The new approach could explore how to leverage web technologies to create a new public-private data infrastructure that is designed to improve transparency and support investment guidance and risk management for employers, workers, and government.[44] This new approach would be designed to support more market-based government tools of action and improved investor information.

INVITATION TO JOIN THE CONVERSATION

The world has undergone a transformation that has shaped our economic and social lives in ways that we are only now starting to understand. This widespread and pervasive change has fueled feelings of economic uncertainty and insecurity around the world.

This paper has argued for a new direction for America—one that would forge a new social contract in which workers, businesses, and government share in the opportunity and the risk of the new economy. For that to happen, the roles and responsibilities of each of these stakeholders must be reconsidered and the tools of action used must be reinvented, all while managing risk. The new policies and tools of action must be equal parts public policy and market-based solutions.

The business community cannot sit on the sidelines; it must provide new leadership in brokering this conversation with America. This is the challenge of our time, and we can no longer defer on the hard questions and issues that must be reckoned with. Should we rise to the occasion, the American Dream can be restored and the free enterprise system can once again deliver on the promise of freedom and economic prosperity.

To that end, the U.S. Chamber of Commerce Foundation is inviting the business community and all other stakeholders to develop and refine the guiding principles that make up the new social contract. This includes launching national and regional meetings and conversations on the six identified priority areas: (1) talent development, (2) earnings risk, (3) workplace regulatory reform, (4) the safety net, (5) regional innovation and risk sharing, and (6) the new public-private data infrastructure. Other priority areas may be identified in the future as we move forward. We encourage you and your organization to join the conversation.

To learn more about the Opportunity Project, contact Jason A. Tyszko, executive director at the Center for Education and Workforce at the U.S. Chamber of Commerce Foundation, at 202-463-5566 or **jtyszko@uschamber.com**.

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