

World Knowledge Forum 2012

Job Creating Growth

October 9, 2012, *Job Creating Growth – What Should Be Done?*

In the wake of the 2008-2009 global financial crisis, economies all over the world have struggled to recover corporate profits and identify new, sustainable opportunities for unemployed workers. On the first day of the 13th World Knowledge Forum, a panel of international economic and labor experts presented strategies for creating sustainable job growth in a discussion entitled "*Job Creating Growth – What Should Be Done?*"

Thierry de Montbrial, founder and president of the French Institute of International Relations, addressed job creation from a broad, macroeconomic perspective. By contrast, the remaining panelists – Professor William Lazonick of the University of Massachusetts Lowell, and Bob King, President of United Auto Workers – focused on this issue from a microeconomic point of view.

Dr. Montbrial opened by focusing the discussion on the creation not just of jobs, but rather of good jobs, a distinction that would become a key theme throughout the talk. He then emphasized several classical economic points for good job creation, including the need for a friendly business environment. This includes basic good governance, the rule of law, a sound banking system, and easy access to credit. Dr. Montbrial continued that a nurturing economic environment further requires trust and integrity among economic actors, hinting that this sentiment is missing from the current corporate orientation toward maximizing shareholder value.

Dr. Montbrial also discussed the importance of governments ensuring a proper macroeconomic framework. This includes monetary policies that are not so strict as to stifle growth, but also not so liberal as to stoke inflation. He noted that allowing for this kind of inflation is particularly tempting in the context of the current European crisis. Although doing so would help to diminish the extent of many countries' sovereign debt, he argued that the price of allowing inflation would inevitably lead to a period of painful recession before prices re-stabilize and growth resumes.

In addition to these classical-economic steps, Dr. Montbrial suggested that it is essential for governments and corporations to respond to the increasingly rapid changes in the world's economic environments with ongoing, credible, and structural reforms. He concluded his remarks saying that an important goal should be to protect people through education, rather than protecting jobs that are fast becoming obsolete. He said, "Job creation is in fact the demand for jobs. Demand is not independent of supply. In fact, supply creates demand," thus implying that the best way to promote good jobs is to have an adequate education system.

United Auto Workers president Bob King enthusiastically agreed with the idea of protecting workers rather than jobs. He argued that this should be a key component of the resurgent age of union participation, adding that negotiating on behalf of investments in worker capabilities has become an integral element of UAW strategy over the past decade.

Mr. King illustrated this by drawing on his experience during the successful negotiations between United Auto Workers and Ford Motors for \$25 billion in 2011. These investments to improve worker productivity, he said "will create 20,000 direct automotive assembly jobs." This in turn will create anywhere from 120,000 to 200,000 additional ripple-effect jobs in the U.S.

While Mr. King focused on his specific experiences, Professor Lazonick focused on the general tendency of modern corporations to focus on maximizing shareholder returns. Beginning at Harvard Business School in the 1980s, Mr. Lazonick argues that this general orientation creates incentives for corporate leaders to

maximize stock prices through speculation and manipulation rather than through productive, job-creating innovations.

To address this problem, Mr. Lazonick offered a few key steps. He called on governments to regulate employment contracts to ensure that workers who contribute to innovative processes share in the gains from innovation. He also advocated for the creation of work programs that invest in the productive capabilities of educated and experienced workers rather than turning to younger, cheaper workers to boost profits.

Dr. Lazonick contended that to create real, sustainable growth, the prioritization of shareholder value must change above other considerations. He offered a strong warning to burgeoning economies to avoid this orientation in order to protect their long-term growth prospects. In the case of the U.S., however, Mr. Lazonick was pessimistic about any changes in the near future.