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TOWARD INCLUSIVE ECONOMIES IN TRANSATLANTIC CITIES: NAVIGATING LABOR MARKET CHANGE AT THE LOCAL LEVEL

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SUMMARY

This report examines the adverse effects of labor market change in the United States and Europe, specifically the rise in precarious work and stagnation of wages, and starts to connect these macro-level structural changes with transatlantic city policy response.

The type and quality of work and wages is an outcome of how growth is generated and shared through economic development. This critical link between economic development and labor market policy is the focus of this report. The Urban and Regional Policy Program of the German Marshall Fund convened a taskforce of fourteen U.S. and European labor market and economic development specialists to explore what cities can do to address the quality of work and wages as part of building more inclusive and equitable urban economies. This report outlines the recommendations of the taskforce.

A central recommendation is the call for economic development to be human-centered, which is in line with other calls by policymakers who recognize the need to put "people first" or "people at the center" of policymaking. To achieve this there needs to be a fundamental rethinking of how current economic development systems work. This requires a systems-change approach that is shaped by three mutually reinforcing principles.

- Democratize and localize the economic development process by activating and engaging a range of stakeholders in the policy design and evaluation process.
- Strengthen data and forecasting capacity.
- The economic development metrics used to guide how policy is formulated, designed, implemented and evaluated needs to be based on indicators that more accurately reflect the median socioeconomic well-being and experience of residents.

This report unpacks these recommendations after outlining and seeking to understand the nature, drivers and outcomes of labor market change from a transatlantic perspective. The effects of macro-level changes are felt at the local level and the second chapter of this report therefore explores the evidence on this. The report closes with the recommendations for systems change and a call to action.

INTRODUCTION

As epicenters of economic activity, cities in the United States and Europe are disproportionately impacted by transformative changes in the nature of work. The high frequency and concentration of economic activity that takes place in urban centers means that the adverse effects of labor market change—the rise in precarious work and stagnation of wages—are felt acutely at the city level. Globalization, demographic (including population movements) and technological change (digitalization, automation, platform economy), and decarbonization are the four megatrends shaping labor market change in the United States and Europe. These are interlinked and, depending on the specialization and the individual characteristics of the local economy, various combinations of them impact regions and cities. Of the four megatrends and their multiple combinations changing labor markets at the city level, it is the flexibilization and precarization of work that are particularly worth highlighting as they are amplified in the United States and Europe and have far-reaching consequences for skills development and inequality.

The problem is that the inequalities found in metropolitan areas today are compounded by the adverse effects of labor market change. While in the aggregate, average unemployment has declined precipitously in the United States and steadily in the EU,[1] beneath such ostensible improvements there are growing tensions and anxieties that critically affect the economies and societies in transatlantic cities. Specifically, parallel to growth, wages at the bottom end of the income distribution have stagnated in the United States and the United Kingdom, and also to varying degrees between different EU countries. Wage stagnation affects low-paid workers much more than middle-income earners, and the real labor incomes of the top 1 percent of earners have increased much faster than those of median full-time workers. This reinforces the longstanding trend in the rise in economic inequality since the 1980s (especially in the United States and the United Kingdom). It has also contributed to an increase in the working-age population that is working but living at or below the poverty line.[2]

At the same time that income inequality has drastically increased, the problem of precarious or vulnerable work and the significance of skills differentials has been growing too.[3] A high percentage of new jobs created are precarious—i.e. they are temporary and low-paid—and evidence from the United States and Europe shows that this contributes to an increasingly polarized labor market. While most jobs are created at the upper and lower ends of the job/wage quintiles, it is the middle that continues to hollow out, though the downgrading (i.e. erosion of middle-income earners) is more characteristic of the United States than of Europe.[4]

1 Rising employment has overshadowed unprecedented wage stagnation. Unemployment rates are below, or close to, pre-crisis levels in most countries. Job vacancies have also reached record highs in Japan, the eurozone countries, the United States, and Australia. Unemployment rates in OECD countries was predicted to continue falling, to reach 5.3 percent at the end of 2018 and 5.1 percent in 2019. OECD Employment Outlook 2018, Paris: OECD Publishing, 2018.

2 Using the EU measurement of poverty: 60 percent of area median income. The share of those working and in poverty has increased from 9.6 percent in 2005 to 10.6 percent in 2015. *OECD Employment Outlook 2018*. The U.S. Bureau of Labor Statistics defines "working poor" as someone below the poverty line who spent at least half the year either working or looking for employment. In 2016, there were roughly 7.6 million Americans in this category. Most working poor are aged over 35, while fewer than five in 100 are between the ages of 16 and 19.

3 Hartley Dean and Lucinda Platt (eds.), *Social advantage and disadvantage*, Oxford University Press, 2016.

4 Whereas in Europe the main trend in job polarization is upgrading, in the United States it is downgrading (i.e. most jobs created are at the lower end of the labor market).

These macro-level changes translate at the local level into more than half the population in 11 EU member states working but having difficulty meeting basic household expenses.[5] In the United States, 43 percent of households (50.8 million households) that are in work cannot afford a basic monthly budget for housing, food, transportation, childcare, healthcare, and a monthly smartphone bill.[6] From a social perspective, this inability to afford basic household expenses has larger and more long-term implications, as researchers, for example, have isolated the lack money as adversely effecting children's health, educational, and behavioral outcomes.[7]

This in turn impedes social and economic mobility for future generations. Moreover, given the United States' legacy of racial segregation, it is important to factor race into the analysis because at the city level historical and ongoing patterns of exclusion have left many people of color stuck in neighborhoods where opportunity structures like access to transit, clean air, public parks, good schools, retail, and services are largely missing. This segregation costs cities economically.[8]

What can city governments do independently and as a major stakeholder in regional economic development to insert more equity and inclusion into urban economic development generally, but with the intended outcome being better-quality work and wages given the adverse effects of labor market change? Recognizing that, while they are fundamentally different entities, labor market change in the United States and Europe nevertheless have similarities and is impacting individuals, families, and communities in a similar manner, the Urban and Regional Policy Program (URP) of the German Marshall Fund of the United States (GMF) convened a taskforce of 14 U.S. and European experts to explore what, if anything, transatlantic cities can do to address the problem of stagnant wages and precarious employment as part of building more equitable and inclusive urban economies (see Appendix A). City economic development practitioners, researchers, funders, trade union representatives, and policy analysts gathered in Torino, Italy in January 2018 and in Cleveland, Ohio in June 2018 to explore these issues.

The taskforce concluded that to insert more equity and inclusion into the urban economic development process that would result in better-quality work and wages, the issue of labor market change needed to be reframed from a problem to an opportunity. Further, the well-being of individuals is not at the center of policymaking and planning decisions and it should be. As such the taskforce agreed on the following question to guide its work: How can the changing nature of work create a more human-centered, inclusive economy in transatlantic cities and regions?

To achieve this, a systems-change approach is in order, as opposed to piecemeal policies and programs. Without a fundamental rethinking of how current economic development systems work, we cannot achieve more inclusive and equitable outcomes. A central part of systems change is the need for new indicators and outcomes to measure growth, and this formed the foundation of the taskforce's discussion. A second key point is the need for a narrative that puts people at the center of economic development and policy planning.

Moreover, in an endeavor to change systems, the current narrative does not adequately capture the systemic problems at the root of approaches to economic development. Rather, a narrative is needed that explains the problems and their causes, and that can educate and convince stakeholders of the social and economic value of what it means to develop inclusive economies.

Context

There is a crucial link between job and wage quality and urban (and regional) economic growth. The evidence from the United States suggests that cities

5 According to the European Foundation for the Improvement of Living and Working Conditions. households in seven EU countries—Croatia, France, Greece, Ireland, Italy, Slovakia and Spain—say their living conditions have not returned to pre-2007 financial crash levels.

6 This is based on analysis of U.S. government data released by the United Way Alice Project. "ALICE: A New Lens for Financial Hardship," United Way, 2018.

7 Kerris Cooper and Kitty Stewart, "Does money affect children's outcomes? An update," 2017.

8 "The Cost of Segregation: Lost income. Lost lives. Lost potential. The steep costs all of us in the Chicago region pay by living so separately from each other," The Metropolitan Planning Council, 2017.

and regions with high levels of economic inequality and deprivation also experience slower economic growth than those areas with lower inequality and lower deprivation.[9] A study by Barnes and Ledebur examined 78 metropolitan areas in the United States and found that those with the widest gap in income between the central city and suburb in 1980 had the most sluggish job growth during the following decade.[10] While the relationship between income inequality and economic growth has long been controversial, more recent research supports earlier findings and suggests that in OECD countries economic growth falls when income inequality rises.[11] One reason for this is that inequality imposes high economic costs. Experts have convincingly argued that acute disparities and unequal opportunities appear to be associated with eroding social capital that results in underinvestment in human capital (for example, low-income members of society are not as able to invest in their education),[12] conflict over the direction of economic development (i.e. clashes over subsidies and location of new investments), and the movement of people away from low-opportunity to higher-opportunity areas.[13] Moreover, in the United States racial inclusion and economic equality are associated with regional economic growth,[14] which means the less segregated the region, the stronger the economy.[15] Others have argued that improving incomes and decreasing deprivation in cities can boost metropolitan economic performance overall.[16] Using a sample of 120 metropolitan areas in the United States, research found that a skilled workforce and high levels of racial inclusion and income equality correlate strongly and positively with economic growth.[17]

> ***"Recent research suggests that in OECD countries economic growth falls when income inequality rises"***

Thus, access to quality jobs and wages matters to individuals, the communities and cities in which they live. And cities matter to regional economic growth. But the challenge with cities' economic development activities and initiatives is that too often the emphasis (and the measure of success) is placed on one key outcome: the number of jobs created as part of a much wider drive to economic growth. Job quality and wages, and the extent to which local residents can fill the jobs created, is not the focal point though it has just as important a ripple effect on the local economy as the number of jobs created. This is because, in great part, the idea is that economic growth will trickle down and lead to new and/or expanded industry and businesses in cities.

This growth will thus translate into more jobs that, in turn, will result in poverty reduction by increasing wages, racial and ethnic desegregation, and intergenerational mobility.[18] In fact, some argue that generally, and especially in regions with weak-market cities, the focus should be only on retaining and bringing in new industry. According to the trickle-down view, regulating wages, instituting living-wage policies or using tools such as community-benefit

9 Saurav Dev Bhatta, "Are inequality and poverty harmful for economic growth: evidence from the metropolitan areas of the United States," *Journal of Urban Affairs* 23(3-4): 335-359, 2001; Manuel Pastor and Chris Benner, "Been Down So Long: Weak-Market Cities and Regional Equity," *Retooling for Growth: Building a 21st Century Economy in America's Older Industrial Areas*, 89-119, Washington, DC: Brookings Institution Press, 2008; Sarah Treuhaft, Angela Glover Blackwell, and Manuel Pastor, "America's tomorrow: Equity is the superior growth model," *Policy Link Report*, 2011; Ani Turner, "The business case for racial equity," *National Civic Review* 105, no. 1: 21-29, 2016.

10 William Barnes and Larry C. Ledebur, *The New Regional Economies: The U.S. Common Market and the Global Economy,* Thousand Oaks, CA: Sage Publications, 1998.

11 *Focus on Inequality and Growth*, Paris: OECD Publishing, 2018; Jonathan David Ostry and Andrew Berg, *Inequality and Unsustainable Growth; Two Sides of the Same Coin?* No. 11/08, International Monetary Fund, 2011; Laura Sullivan, Tatjana Meschede, Lars Dietrich, and Thomas Shapiro, "The racial wealth gap," *Institute for Assets and Social Policy*, Brandeis University, DEMOS, 2015.

12 *Focus on Inequality and Growth,* OECD.

13 Manuel Pastor and Chris Benner, "Been Down So Long."

14 Randall Eberts, George Erickcek, and John Jack Kleinhenz, "Dashboard Indicators for the Northeast Ohio Economy: Prepared for the Fund for Our Economic Future," FRB of Cleveland, 2006.

15 Racial inclusion had the third-strongest effect of all eight indicators on three of the four measures used: employment growth, productivity, and change in real output. Randall Eberts, George Erickcek, and John Jack Kleinhenz, "Dashboard Indicators for the Northeast Ohio Economy"; Ani Turner, "The business case for racial equity."

16 Mark Muro and Robert Puentes, "Investing in a Better Future: A Review of the Fiscal and Competitive Advantages of Smarter Growth Development Patterns," Brookings Institution, July 2016, 28. A study by Pastor and others incorporating data from seventy-four regions found a positive relationship between the reduction of poverty in central cities and overall metropolitan growth. Manuel Pastor et al., *Regions That Work: How Cities and Suburbs Can Grow Together,* University of Minnesota Press, 2000.

17 Randall Eberts, George Erickcek and Jack Kleinherz, "Dashboard Indicators for the Northeast Ohio Economy."

18 Manuel Pastor and Chris Benner, "Been Down So Long."

agreements to insert more fairness into the economic development process hinders growth. But there is strong evidence to suggests that they are wrong and that inequitable outcomes damage economic growth, with the effect at least as pronounced in regions with the most distressed central cities. Putting the spotlight on equity through policies and tools that seek to redistribute resources does not, they argue, impede regional economic growth but bolsters it.[19]

There are challenges to exploring this issue transatlantically and at the urban level. Simply put and unsurprisingly, context matters. The advantage of comparative international (transatlantic) policy, practice, and research is that it enables us to examine a wider variety of policies, systems of provision (for example, skills training, education) and practice. But it also poses formidable challenges. First and foremost, that of building inclusive economic development systems at the local level that take into consideration that quality of wages and work are deeply embedded in national systems, cultural values and norms. And that posed by the fact that economic development occurs within an institutional and legal framework that differs from country to country (i.e. planning permission, labor market regulation, etc.).

Furthermore, current labor market and economic development practices in the United States and in the EU reflect historically different responses to problems as well as different principles and values that underpin those responses. Where we start to see convergence between the United States and Europe is the slow liberalization of the European coordinated market economies that has taken place in different ways and through different policy mechanisms and at different times in different countries in the last 30 years. The key point here is that, where the post-war European coordinated market economy was built on a set of social rights (i.e. rights to education, healthcare, social security) in addition to political and civil ones, the United States has limited social rights but a grounded framework for political and civil rights. This matters because where the risks of healthcare, unemployment, paternity/maternity leave, and childcare are managed by society in the EU, these same risks are largely managed by the individual in the United States—and central here is that an individual's ability to manage these risks in the United States is based on his or her labor market participation.

Finally, economic development happens at the coordinated regional level and here cities are, however important, just one stakeholder among several in this process. There was thus great discussion among the taskforce about whether it is even possible to explore this issue from a city perspective, given that economic development happens at the regional level. But cities provide a unique spotlight on the issue because they have borders, most cities have city councils that have legislative ability, and they have elected officials who are beholden to a set group of people within a defined border. This is not to suggest that one should be analyzed at the expense of the other. The city matters to the region just as much as the region matters to the city. But we have elected to explore this issue from a city perspective because it is a defined space with legislative ability, and because cities are on the front lines of service provision—be it for health, housing, education, security or jobs.

"Cities have an opportunity to use the specific tools at their disposal to advocate for and showcase what a human-centered approach to economic development could look like"

Many of the fundamental issues at hand are considered, or legislatively determined, to be best left to national governments or multinational entities. But cities have an opportunity to use the specific tools at their disposal to advocate for and showcase what a human-centered approach to economic development could look like. While operating in a broader regional, national, and international framework, cities and city governments

19 Ibid.

are still important social and economic actors. Though they may not be able to implement and enforce radical changes, they can help shift the narrative, identify and use new indicators and standards, and engage their residents to democratize economic development. But exploring this from a transatlantic perspective means capturing the very different governance and regulatory structures between cities in the United States and in Europe. It is a question of the degree of freedom cities have to legislate, provide opportunity based on location, and to bring stakeholders around the table.

This report captures the spirit of the Torino and Cleveland convenings—the opportunity but also challenges in exploring how cities can influence the type and quality of jobs and wages as part of equitable economic development from a transatlantic perspective. It explores the key issues as they pertain to labor market change and provides recommendations that reflect the priorities of both the authors and the taskforce.

The first chapter unpacks the drivers of labor market change in the United States and Europe, and the effect this has had on wages and quality of work over the last thirty years. After this exploration of this issue from the macro-perspective, the second chapter provides a brief summary of evidence that explores what these changes look like at the subnational level. Chapter three outlines the conclusions of the taskforce, including a discussion of what systems change in the context of developing a human-centered approach should look like and how this can be achieved through a rethinking of the key components that should be a part of any city's process of economic development. The report concludes with a summary of the key points and a view to moving thought to action. We hope that the recommendations will do two things: first, provide a pathway for transatlantic cities looking to build more inclusive economies, with a spotlight on the quality of work and wages, and second, outline the role GMF will play in brining transatlantic cities together to share best practice and learning.

THE CHANGING NATURE OF WORK FROM A TRANSATLANTIC PERSPECTIVE: THE WHAT AND THE WHY OF CHANGE

The labor market is in permanent flux, subject to changes that are cyclical and structural in and where each year millions of jobs are created and lost. Cyclical changes—recessions followed by recovery—also have structural effects, as jobs that are created in net terms in recovery are in many ways different than those lost during the downturn. In the past decade, Europe and the United States have witnessed massive structural changes driven by globalization, decarbonization[1] and technological change. These in addition to demographic change are also the main factors driving employment change. These trends interact and often reinforce each other. It is difficult to attribute labor market shifts, or any particular local job loss or gain, to one single factor, but such changes can be safely expected to accelerate over the next decade.[2] Naturally, job losses on account of these changes coupled with changes to the type and quality of work have serious local and regional effects that threaten the economic base of local communities, with cities in vulnerable regions perhaps affected the most.

This chapter explores a specific aspect of labor market change, namely the drivers of stagnant wages and increased nonstandard work arrangements. It argues that in the last three decades the drivers of these changes in the United States and Europe—macro-level policy changes, the decline in unionization, the rise in multinational companies, and pressure from globalization—contributed to stagnation of wages and increased nonstandard work arrangements. Though the timing and implementation (and therefore effect) of policy changes in the United States and the EU are different, the underlying arguments that outline the need and call for reforms are similar. The argument for change drove the type of policy changes whose effects, in turn, are felt today.

Trends in Nonstandard Work Arrangements and Wage Gaps

Wages in the EU and the United States

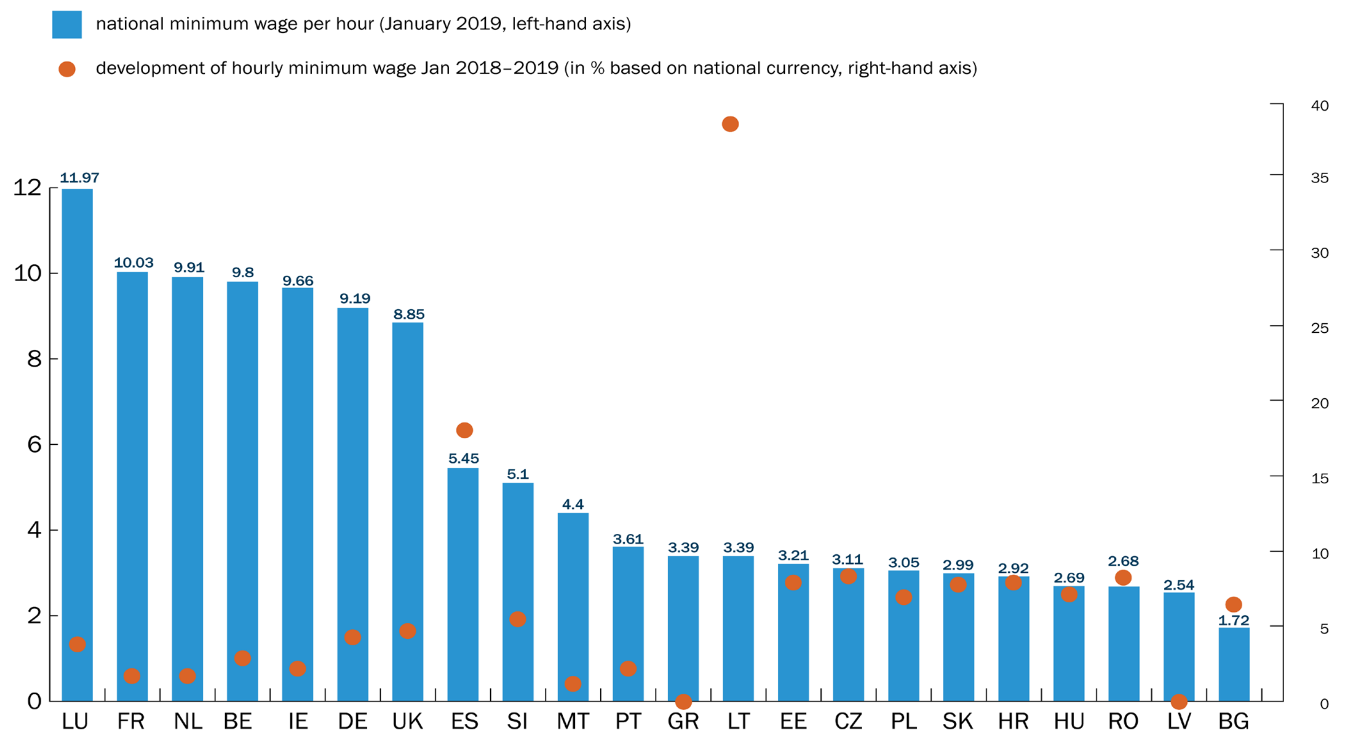
The European Union is a supranational entity with 28 member states that form, among other things, a single market which seeks to guarantee the free movement of goods, capital, services, and labor—the "four freedoms." Labor markets and wage setting are nevertheless a national competence.[3] Today there exists huge income gaps mostly between the eastern and western member states, but also in terms of the "core and periphery"—and crucially, within cities themselves. To understand wages in the EU, it is important to first understand that expansion of the

1 It is widely assumed that the overall employment effects of decarbonizing the economy will be neutral or even slightly positive at a net level. Cambridge Econometrics, for example, identified overall positive effects of the EU Energy Roadmap 2050, while a report by the European Climate Foundation and Ernst & Young concluded that "decarbonization would contribute toward reviving employment across Europe by fostering labor-intensive sectors (renewable energy, transport, buildings), and net effects across the economy are projected to be positive". Cambridge Econometrics, "Employment Effects of Selected Scenarios from the Energy Roadmap 2050 Final Report for the European Commission (DG Energy)," 2013; Alexis Gazzo and Cyrus Farhangi, "Macro-economic Impacts of the Low Carbon Transition," Ernst & Young, June 7, 2014.

2 Moreover, as technology continues to advance and national governments in the EU and state governments in the United States scale up initiatives to tackle climate change, workers' training and skills will naturally change to fill decarbonization and related technological jobs in the labor market.

3 National legislation regulates industrial relations, wages, and working and employment conditions. Most supranational regulations pertaining to employment conditions, such as the EU directives on employment or the International Labor Organization conventions to which states are signatories, do not call into question their right to legislate. If supranational regulations needed adjustment, it is the responsibility of states to adapt their legislation accordingly. Gerhard Bosch and Claudia Weinkopf, "Transnational labour markets and national wage setting systems in the EU," *Industrial Relations Journal,* 44:1, 2013.

Figure 1: National minimum wage per hour, 2017 (in EUR)



Source: WSI minimum wage database (WSI 2017)

EU to the post-communist countries was perceived as a "convergence machine", i.e. a mechanism by which to better align[4] wages in Central and Eastern Europe (CEE) with wages in Western Europe (aligning wages with Germany specifically being the goal). Between 1995 and 2008 wage convergence between poorer and richer member states was dynamic. Purchasing power and the living standards of workers were improving in the east compared to the west, and this in turn was helping to narrow the wage gap between them (and with Germany in particular). However, real wage growth considerably slowed down after 2010, while in-work poverty grew between 2010 and 2015 at the EU level.[5] Countries that followed a policy of internal wage moderation saw wages for many groups of workers decline.[6] Indeed, since the start of the 2008 financial and economic crisis, wage levels compared to Germany have fallen by 6 percent in Hungary, 5 percent in Czechia and 3 percent in Poland, and remained stagnant in Slovakia.[7]

Figures 1 and 2 demonstrate diversity and convergence in terms of wages in the EU. Since 2016, in particular in 2017 and 2018, wage growth in CEE picked up again but could not compensate for earlier losses. Minimum wages in five CEE countries (Czechia, Slovakia, Hungary, Poland, and Romania) grew by between 7 and 9 percent in 2018. CEE countries again show some convergence; this is not the case, however, in the Southern Europe. What is clear is the wide range of minimum wage levels across the EU. Wage levels in nominal euro terms (indicative for investment decisions, labor mobility) show that convergence was on track between the mid-1990s and the mid-2000s but that since 2008 there has been a slowdown, and in certain countries even a reversal. The major drivers of wage gaps between poorer and richer EU member states are as follows.

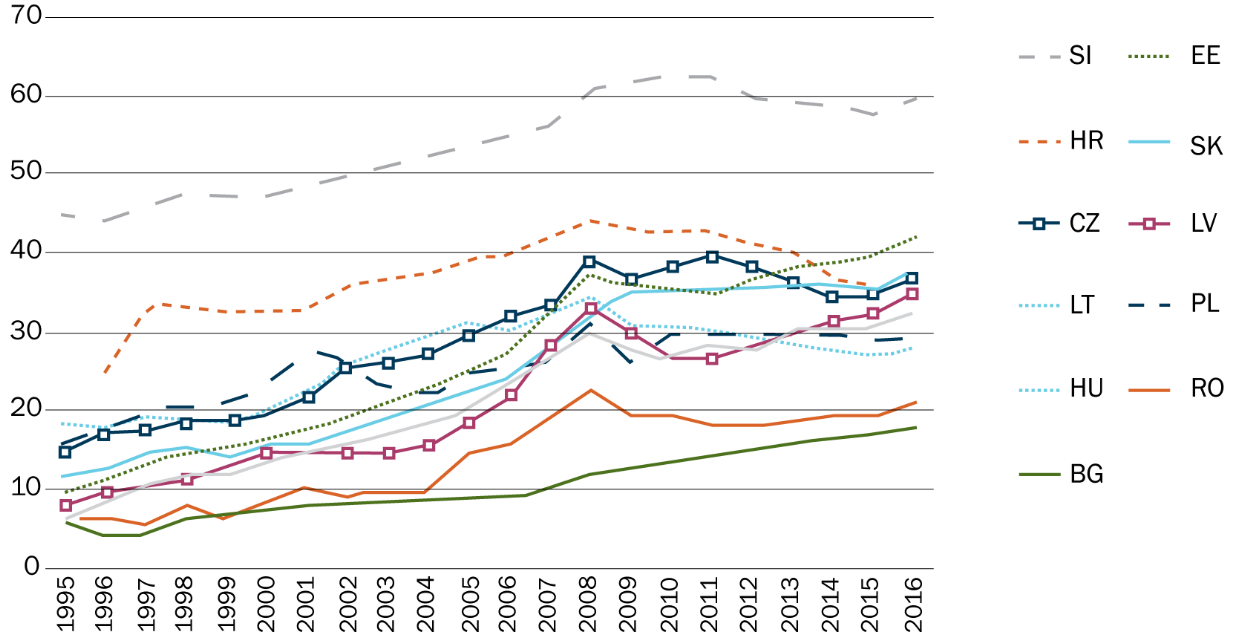
4 While the EU is fostering convergence between poorer and richer regions, and also via its Cohesion Funds, there is no comparable convergence mechanism in North America. NAFTA, for example, does not have a social clause. Data shows that U.S. and Mexican wages have showed no convergence over the years since NAFTA was in effect.

5 Agnieszka Piasna, "Bad jobs' recovery? European Job Quality Index 2005-2015," European Trade Union Institute (ETUI), 2017.

6 Martin Myant, Sotiria Theodoropoulou, and Agnieszka Piasna (eds.), *Unemployment, internal devaluation and labour market deregulation in Europe*, European Trade Union Institute, 2016.

7 Béla Galgóczi, "Wage convergence in Europe has reversed since the crisis: socially unjust and economically damaging," European Trade Union Institute, 2017.

Figure 2: Yearly average gross wages in % of the EU15, 1995–2016 (in nominal EUR terms)



Source: AMECO (2017)

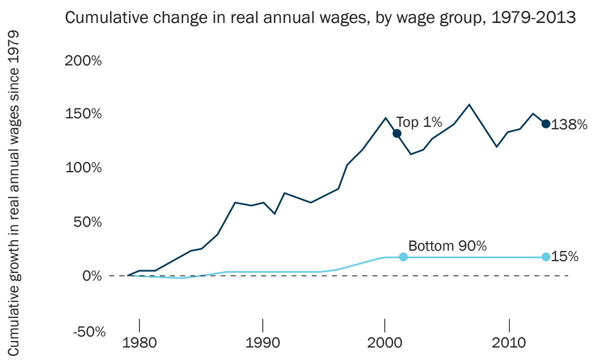
- Southern and Eastern European countries historically are less developed.
- Diversity of industrial relations, with varying strength of unions and collective bargaining coverage across countries.
- Pressures from globalization in a deregulated economic environment (EU integration is often criticized as asymmetrical; i.e. as putting more emphasis on economic integration than on social cohesion).
- Business strategies of powerful multinationals have resulted in a race to the bottom with regard to wages and labor standards.
- Flawed EU crisis-management practice focusing on austerity and wage cuts where competitiveness is seen as "cost-competitiveness."

Europe is special (in many ways) but most of its challenges are similar to the ones for the United States and most advanced economies worldwide.

Much has been written recently about the change in the distribution of incomes in the United States. For the purpose of this discussion, labor income in the United States is defined as the amount a person enters on their income tax return.[8] Rising income inequality—a reason for chronically slow growth in the living standards of low- and moderate-income Americans—preceded the 2008 crisis and continues to this day. As Figure 4 demonstrates, there have been significant changes in the distribution of income since the post-war years. Incomes were more evenly distributed in the 1950s, but by the 1980s changes started to emerge. The share of total gross income of the top 1 percent increased by one-half between 1979 and 1992 and by 2012 it was more than double its 1979 share. The top 1 percent in the United States now receives close to one-fifth of total gross income—

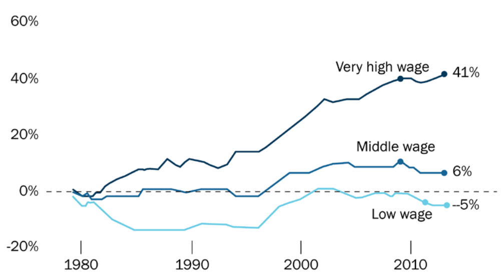
8 Labor income is income obtained through wages earned by participating in the labor market. Non-labor income includes capital income, private transfers, and state transfers. In this report we are only referring to labor income and not non-labor income.

Figure 3: Cumulative change in real annual wages by wage group, 1979–2013



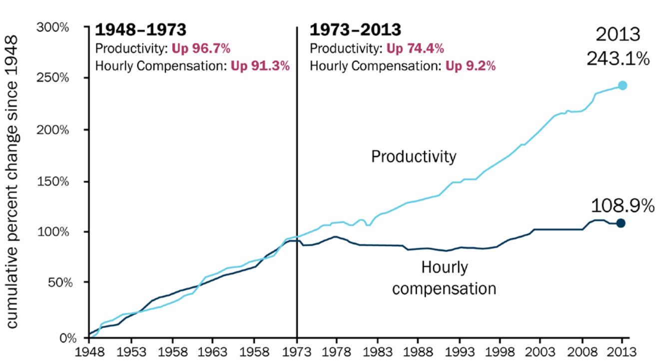
Source: Lawrence Mishel, Elise Gould, and Josh Bivens, "Wage stagnation in nine charts," Economic Policy Institute, 2015.

Figure 4: Cumulative change in real hourly wages of all U.S. workers, by wage percentile, 1979–2013



Source: Lawrence Mishel, Elise Gould, and Josh Bivens, "Wage stagnation in nine charts," Economic Policy Institute, 2015.

Figure 5: Disconnect between productivity and typical compensation, 1948–2013



Source: Lawrence Mishel, Elise Gould, and Josh Bivens, "Wage stagnation in nine charts," Economic Policy Institute, 2015.

meaning that, on average, it has twenty times its proportionate share.[9]

The near stagnation of hourly wage growth for a high percentage of Americans has contributed greatly to this inequality over the past generation. Given that wage-related income accounts for the majority of total income among the bottom-fifth of households,[10] it is not surprising that this trend has impacted U.S. living standards.

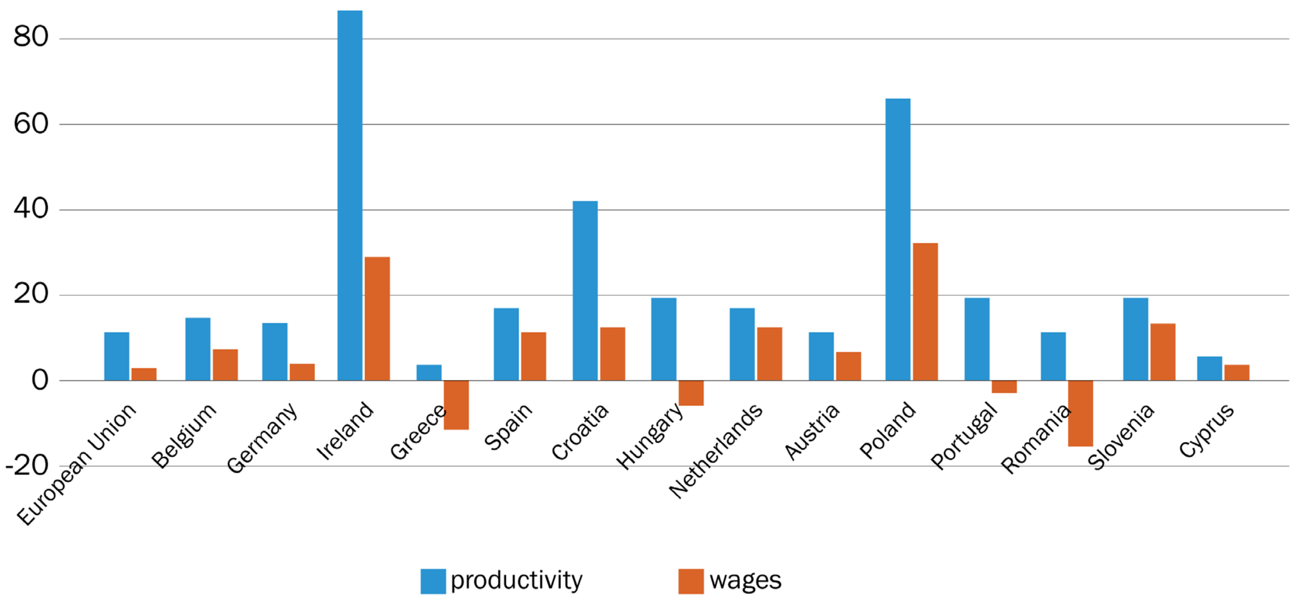
In the United States, the hourly wages of middle-wage workers (median-wage workers who earned more than half the workforce but less than the other half) were stagnant between 1979 and 2013, rising by just 6 percent—less than 0.2 percent per year. This wage growth happened only because wages grew in the late 1990s when labor markets got tight enough—unemployment, for instance, fell to 4 percent in 1999 and 2000—to finally deliver across-the-board hourly wage growth. Otherwise the wages of middle-wage workers were totally flat or in decline over the 1980s, 1990s, and 2000s. The wages of low-wage workers fared even worse, falling by 5 percent from 1979 to 2013. In contrast, the hourly wages of high-wage workers rose by 41 percent.

Moreover, in the last decades wages have increasingly decoupled from productivity in the United States and in Europe. In theory, increased productivity—the improvements in the amount of goods and services produced per hour worked—should result in an increase in the wages and benefits received by a typical worker, especially in a tight labor market (for example, as now in the United States the national average for unemployment is 3.9 percent.) But instead, wage growth has lagged productivity. In the United States, as Figure 5 shows, between 1948 and 1973 hourly compensation of the vast majority of workers

9 In the United States, the proportion of total gross income going to the top 1 percent began to increase long before 1970. Between 1952 and 1972, the relative advantage of the top decile rose from 150 percent to 194 percent of the median, equivalent to the increase that occurred between 1972 and 2012. The difference between the two periods, however, is that the United States maintained a broadly stable level of household income equality in the 1950s and 1960s, despite widening earnings dispersion.

10 The vast majority of Americans rely on their paychecks to make ends meet. For these families, the bulk of income comes from wages and employer-provided benefits, followed by other income sources linked to jobs, such as wage-based tax credits, pensions, and social insurance. Lawrence Mishel, Elise Gould, and Josh Bivens, "Wage stagnation in nine charts," Economic Policy Institute, 2015.

Figure 6: Changes in real wages and productivity, 2000–2016, in %



Source: Real compensation per worker, real productivity per worker (AMECO, 2018).

rose by 91 percent, roughly in line with productivity growth of 97 percent. But since the mid-1970s (except for a brief period in the late 1990s), pay for the vast majority lagged further and further behind overall productivity.[11] This suggests that employers are not investing profits in their workers' skills or wages, absent collective bargaining to force change (or at a minimum, a federal minimum wage hike). This is an acute problem given that the U.S. workforce is grappling with growing income inequality and declining personal disposable income.[12]

In Europe, between 2000 and 2016 wage developments were lagging productivity for the EU as a whole and for 14 member states.[13] For the EU, labor productivity (as GDP/worker) was 10.5 percent higher on real terms in 2016 than in 2000, while real compensation in the same period increased by a mere 2.45 percent. Real productivity increase was thus more than four times the increase in real wages, which means that three-quarter of the achieved labor productivity growth was not paid out in the form of wages.[14]

Work in the EU and the United States

The common starting point in thinking about changes in work in the United States and the EU is the archetype of the "the standard employment relationship," defined as workers in full-time, permanent positions and directly employed by a firm or organization. Nonstandard work arrangements are typically defined as those jobs that depart from the standard employment relationship on at least one of the following dimensions:

- the job is temporary,
- the job is part-time,
- the worker is employed by an intermediary, or
- there is no employer at all.

11 "From 1973 to 2013, hourly compensation of a typical (production/nonsupervisory) worker rose just 9 percent while productivity increased 74 percent. This breakdown of pay growth has been especially evident in the last decade, affecting both college- and non-college-educated workers as well as blue- and white-collar workers. This means that workers have been producing far more than they receive in their paychecks and benefit packages from their employers." Lawrence Mishel, Elise Gould, and Josh Bivens, "Wage Stagnation in nine charts."

12 Based on the Gini Index, national income inequality rose in 2011 to stand at 0.477. Historically, personal income in the United States has grown at an annual average rate of 10 percent, but since 2009, this rate has decreased to just 3.6 percent. "United States: Industrial relations profile," Eurofound, 2014.

13 Béla Galgóczi, "The increasing gap between wages and productivity: it's time to act!" Medium, 2018.

14 Ibid.

A related concept is contingent work but there is a debate about whether all forms of nonstandard work (such as part-time jobs) are contract for long-term employment.[15] Some researchers point out that a significant number of part-time jobs are permanent and that independent contractors can have long-term stable employment. Contingent work is defined as any work arrangement which does not explicitly contain a contract and therefore contingency is a separate dimension of job quality from how work is organized. Others argue that nonstandard work is contingent by its very nature.

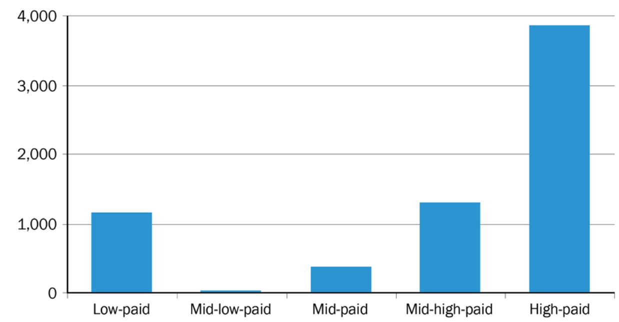
The Rise of Nonstandard Work Arrangements in the EU

Overall employment has improved across most of the EU member states since the height of the 2008 crisis—between 2010 and 2015 more individuals have been brought into paid employment and the unemployment rate in 15 EU countries fell (and on average in the EU as a whole).[16] But these aggregate figures do not capture the impact two key facets of the changing nature of work are having on employment. As Deloitte's Global Human Capital Trends report for 2017 forecasts, with the rise of nonstandard forms of employment—such as freelancers, "gig economy" workers, and crowds—almost every job will be redesigned and that will require a new way of thinking about workforce planning and the nature of work based on the fact that companies will no longer consider their workforce to be only the employees on their balance sheet.[17] Second, these on- and off-balance-sheet workers are being augmented with machines and software.[18]

Given this, it is important to explore how employment has changed up to this point and how this intersects with wages. Since the 1990s economists have been trying to better understand when job growth takes place, and whether this growth is achieved at the expense of job quality. To do this, the "jobs approach" was developed in the 1990s to assess the extent to which developed economies' employment structures can be characterized as polarized—with higher job growth at the top and bottom but not in the middle quintiles of the job/wage scale (resulting in a "shrinking" middle).[19] Downgrading occurs where job growth happens principally at the bottom of the job/wage scale, which means the jobs created have increased the supply of low-skilled workers. Where upgrading occurs, job growth happens in the top quintile of the scale and thus results in an increased supply of highly qualified workers.

Applying the jobs approach to Europe, since the 1990s researchers have found that employment growth has been consistently strongest in the top quintile, followed by the lowest and mid-high quintile, with the weakest growth in the mid and mid-low quintiles. Between 2013 and 2016, increased employment polarization has been observed during the period of employment contraction, but this has given way to more balanced growth. Overall, aggregate growth continues to produce modest upgrading, and the relative performance by quintile has been similar before and after 2013.

Figure 7: EU net employment change (in thousands) by wage quintile, 2011–2016



Source: Eurofound authors' calculations based on EU LFS data
Note: EU27, Luxembourg data omitted. Q2 data in each year.

In the aggregate in the EU, net employment gains after 2013 have been more broadly shared across the quintiles, though with a customary skew to higher paid jobs. Around 2.7 million of the net jobs created

15 Anne E. Polivka and Thomas Nardone, "On the definition of contingent work," Monthly Labor Review, 112: 9, 1989.

16 Not everywhere have the developments been positive. In the six member states with the highest unemployment levels, the unemployment rate was still on the rise between 2010 and 2015. Agnieszka Piasna, "'Bad jobs' recovery?"

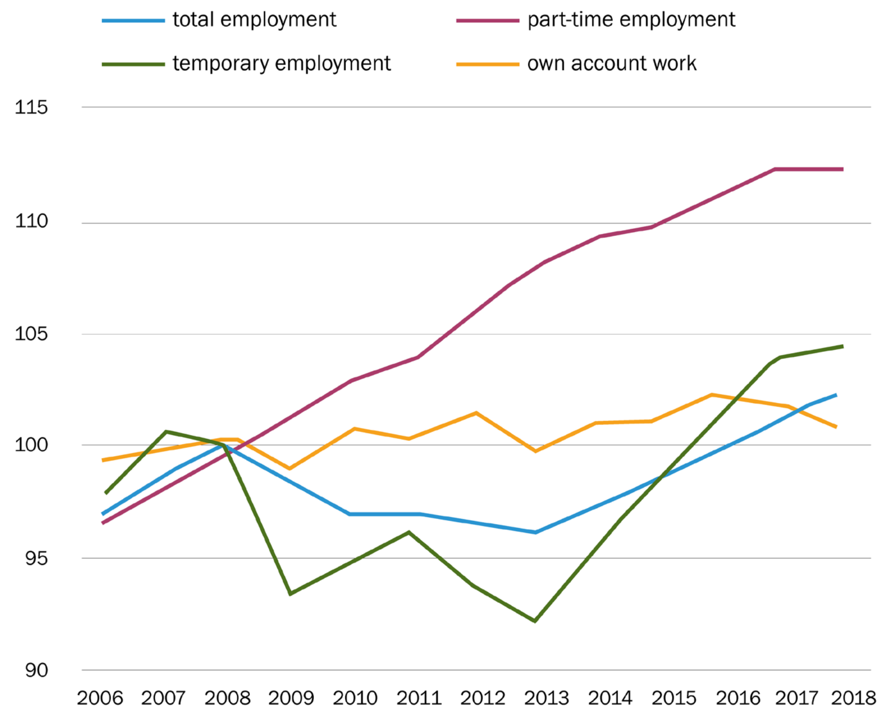
17 *2017 Deloitte Global Human Capital Trends,* Deloitte, 2017.

18 Ibid.

19 The jobs approach was pioneered in the 1990s in the United States by Joseph Stiglitz and refined by Erik Olin Wright and Rachel E. Dwyer. Erik Olin Wright and Rachel E. Dwyer, "The Patterns of Job Expansions in the United States: A Comparison of the 1960s and 1990s," *Socio-Economic Review,* 1: 289-325, 2003.

since 2013 have been in well-paid, top-quintile jobs, but there have also been gains of between 830,000 and 1.6 million jobs in each of the other quintiles. In 2011–2013, employment contracted in all quintiles except the top one. But a small number of member states (Hungary, Latvia, the Netherlands, Ireland, Italy, and Malta) show downgrading patterns of employment since 2013. In these countries, employment growth has been strongest throughout 2011–2016 in the lowest-paying jobs. Thus, aggregate employment shifts in the EU continue to be skewed to top-quintile growth, albeit with a strengthening since 2013 of growth in lower-paid employment.

Figure 8: EU net job growth by forms of employment, 2006–2018



Source: Eurostat (2018)

The fastest employment growth in Europe was recorded in three low-paid job sectors—cleaners/helpers in the services and building sector, personal service workers in the food and beverage sector, and workers in other personal service activities. These jobs account for much of the recent bottom-quintile employment growth. They are typical, basic-skilled service jobs that are hard to automate and where the service is provided directly in person. They are also jobs that predominantly employ women with a high share in part-time employment.

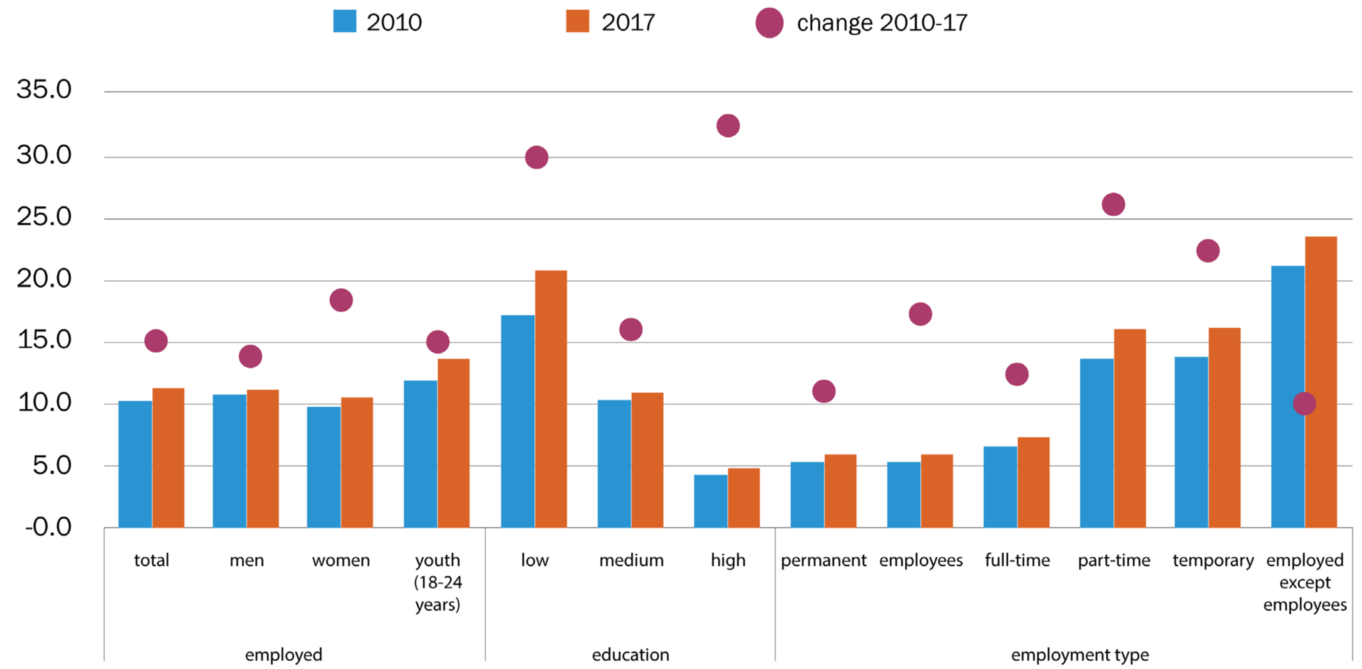
Two of the relatively fastest-growing jobs are the archetypal modern digital economy job—information and communication technology (ICT) and computer programming. While these top-growing jobs contribute to employment upgrading, they do so only modestly given their relatively low employment headcount. There are 1.6 million ICT professionals in computer programming and fewer still in the other top-quintile, professional job categories with the fastest growth. In general, developments in fastest-growing and fastest-contracting jobs are likely to contribute more to employment polarization. Ten of the fastest-growing jobs are in low, low-mid or top paid quintiles while the fastest contracting jobs are in the middle of the wage distribution.[20] The fastest-growing large-employer jobs in the EU include: IT; legal, social and cultural professionals; drivers and plant operators; business and administration professionals; food preparation assistants; personal care workers; and cleaners and helpers. The fastest-contracting large-employer jobs include: hospitality and retail managers; metal and machinery workers; skilled agricultural workers; customer services clerks; building workers; and general and keyboard clerks in public administration.[21]

Analysis of the European Job Quality Index for the 28 EU member states shows that, parallel to changes in employment patterns, there has also been an increase

20 Enrique Fernández-Macías, John Hurley, and José María Arranz-Muñoz, "Occupational change and wage inequality: Eurofound Jobs Monitor 2017."

21 Ibid.

Figure 9: In-work at-risk-of-poverty rate, EU



Source: Eurostat

in low-wage work, working poverty and temporary employment—all indicators of precarious work. In the European context, Kalleberg defines precarious employment as uncertain and insecure, and lacking in social protection and the full citizenship rights of employees in stable employment relationships.[22] Unlike the voluntary flexibility characterized by highly skilled entrepreneurs and contract workers, precarity implies toxic, unpredictable and anxious insecurity.[23] The percentage of workers (employed or self-employed) in the total population who are at risk of in-work poverty[24] has increased in 19 EU countries where the share of working poor was higher in 2015 than in 2005, and in 16 EU countries an increase can be observed over the period 2010–2015. In Estonia, Portugal, Poland, Luxemburg, Spain and Greece, at least every tenth worker was at risk of poverty. In Romania, this was a striking 19 percent of workers. Thus, while there was an initial decline in nonstandard forms of employment immediately following the 2008 crisis (because the least-secure jobs are generally the first to be shed in a recession), there has been a general return to temporary employment among European employers. The share of temporary work in total employment increased in 18 EU countries between 2010 and 2015, reaching the highest levels in Poland and Spain where more than one-in-four workers had contracts of limited duration in 2015.

Between 2005 and 2010, when the European labor market first felt the after-effects of the financial crisis, almost all EU countries declined in job quality measured in terms of forms of employment and job security. Between 2010 and 2015, the quality of employment and job security worsened in eight countries: Cyprus, Portugal, Italy, Greece, the Netherlands, France, and Germany. A worrying development is that, in many aspects of job quality, the worst performing countries have seen a further deterioration. As a result, divergence rather than

22 Arne Kalleberg, "Good jobs, bad jobs," New York, NY: Russell Sage Foundation, 2011.

23 David Brady and Thomas Biergert note that three outcomes are arguably the clearest cases of precarious employment: low-wage work and working poverty indicate economic insecurity, insufficient compensation and marginal employment relationships; and temporary employment is unpredictable beyond the short-term contract and generates considerable anxiety for the worker. David Brady and Thomas Biergert, "The rise of precarious employment in Germany," Research in the Sociology of Work (31): 245-271, 2017.

24 In the EU, the poverty threshold is set at 60 percent of national median equalized disposable income after social transfers.

upward convergence has taken place. Indeed, against a background of poor economic prospects, employers are recruiting a much higher proportion of new employees on temporary contracts in the EU (up to 50 percent between 2010 and 2012 compared with 40 percent in 2002). In 2012, this share was around 80 percent in Spain and Poland.[25] Therefore, the resumed growth in employment levels following the post-2008 jobs crisis has been, as Piasna argues, a "bad jobs" recovery, marked by a return to nonstandard forms of employment with average levels of job quality in the EU remaining below pre-crisis levels.[26]

The Rise of Nonstandard Work Arrangements in the United States

Similar to Europe, downgrading patterns of employment growth have also been observed in the U.S. labor market. Since the 1960s jobs-based patterns of employment in the United States have tended to shift from unequivocally positive upgrading (in the 1960s) to increasingly more polarized patterns in each decade until the 1990s.[27] It is worth recalling also that earlier diagnoses of employment polarization related first to the United States.[28] It can thus be a harbinger of developments in other developed market economies, including the EU.

In the United States, recent work by Katz and Krueger found a sharp rise in contingent and alternative work arrangements, including temporary help agency workers, on-call workers, contract company workers, and independent contractors or freelancers.[29] The share of workers engaged in these arrangements increased from 10.1 percent in early 2005 to 15.8 percent in late 2015. Indeed, 94 percent of the net employment growth from 2005 to 2015 appears to have occurred in alternative work arrangements. But there is disagreement over whether this is an accurate assessment.[30] Nevertheless, the following is a brief summary of the ways in which U.S. employers are reorganizing work and production.

Temporary work is defined as time-limited work and comprises a range of employment relationships:

- Workers placed at an employer by temp agencies and other types of employment service providers,
- On-call workers such as substitute teachers and day laborers, and
- Workers who are directly hired on a temporary basis by an employer.

According to analysis by Bernhardt, 2.5 percent of the U.S. workforce (or 3.4 million workers) was employed by the employment services industry in 2013, the majority by temp agencies.[31] This percentage increased during the 1990s but has been relatively flat since then (fluctuations during the recessions aside). Four sectors stand out as having higher rates of temp work, all of which are lower wage: since 2005, 38.7 percent of temp workers were assigned to the manufacturing sector; 13.9 percent to trade, transportation and utilities; and 18.4 percent to professional and business delivery.[32]

Part-time work (which can also be temporary) is defined by the U.S. Bureau of Labor Statistics as those who usually work less than 35 hours per week. In 2014 28 million workers or 19.2 percent of the workforce was classified as working part-time.[33] Of part-time workers, the majority are classified as "voluntary" part-time (college-students, young mothers or caregivers,

25 *Recent developments in temporary employment: Employment growth, wages and transitions,* Eurofound, 2015.

26 Agnieszka Piasna, "'Bad jobs' recovery?"

27 Erik Olin Wright and Rachel E. Dwyer, "The Patterns of Job Expansions in the United States."

28 David Autor and David Dorn, "The growth of low-skilled service jobs and the polarization of the U.S. labor market," National Bureau of Economic Research working paper 15150, *American Economic Review* (2013), 103(5): 1553–1597, 2009.

29 Lawrence F. Katz and Alan B. Krueger, "The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015," National Bureau of Economic Research, 2016.

30 Annette Bernhardt points out that, while attempting to replicate the Bureau of Labor Statistics (BLS) contingent worker survey questions, the problem with the Katz and Krueger study is that it used an online survey that resulted in a different and much smaller sample than the BLS survey, and it used a different measure in the case of contract workers. Different surveys, sample sizes and measures yield different results, which makes it challenging to know the exact extent of change in employment types and arrangements. Annette Bernhardt, "Labor standards and the reorganization of work: Gaps in data and research," Institute for Research on Labor and Employment, 2014.

31 Ibid.

32 Mattew Dey, Susan N. Houseman, and Anne E. Polivka, "What Do We Know about Contracting Out in the United States? Evidence from Household and Establishment Surveys," Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2009.

33 U.S. Bureau of Labor Statistics, "Contingent and Alternative Employment Arrangements, February 2005," press release, 2005. Annette Bernhardt, "Labor standards and the reorganization of work."

for example). A minority are classified as "involuntary" part-time, meaning the worker would rather have a full-time job but cannot find one for economic reasons. This category is highly cyclical and grows steeply during recessions (currently 8 million workers are involuntary part-timers). After increasing during the 1970s, the overall percentage of part-time workers and percent of involuntary part-time works have been largely flat, with the exception of cyclical increases during recessions. The sharp increase in both during the Great Recession is especially marked, which is not surprising. A common question, though, is whether the ongoing elevated rate of involuntary part-time work reflects continuing weakness in the economy or possibly signals a secular trend. The data suggests that so far, the trend in involuntary part-time work has closely tracked the trend in the unemployment rate, indicating it is still largely cyclical. Bernhardt argues that there is not yet evidence of a permanent, long-run increase in part-time involuntary employment.[34]

> ***"U.S. workers (especially women) have increased the number of annual weeks worked, but the distribution of weeks has polarized, with professional workers putting in more hours and low-wage workers struggling to get enough hours"***

But these are aggregate trends and although these have been stable for several decades, it is possible that they could be masking important underlying changes in part-time work. Thus, there are some key questions. Have there been changes in the distribution of part-time work that cancel out in the aggregate? For example, we know that low-wage workers are more likely to be part-time than higher-wage workers, so has that gap changed since the 1970s? What about changes across different industries? Have the penalties for working part-time grown over time? From 1979 to 2012 real median wages for part-time workers decreased. As a result, the part-time wage penalty increased from 39 to 46 percent (of full-time wages) during that period. What about measures of hours instability? While data are sparse, researchers have identified worrisome trends toward just-in-time and on-call scheduling, and the growth in nonstandard shifts. This is an urgent area for new data collection, since low-wage workers are more likely to work in jobs with unpredictable shifts and nonstandard hours.[35] Finally, a large literature has documented that U.S. workers (especially women) have significantly increased the number of annual weeks worked since the mid-1970s and that seasonal work has become less common.[36] But there is evidence that the distribution of weeks worked has polarized, with professional workers putting in more hours and low-wage workers struggling to get enough hours.[37]

Most important, according to Bernhardt, is that part-time work is not monolithic. On the one hand, significant numbers of part-time jobs are low-wage, do not offer benefits, are subject to volatile schedules, and result in high rates of in-work poverty for workers who inhabit them (this is especially true for involuntary part-time workers[38]). But at the same time, for some subset of part-time workers (for example, college students) this work arrangement is functional and desired because it offers flexibility. Relevant here is that 54 percent of part-time workers in 2007 were secondary wage earners who voluntarily worked less than full-time with no detrimental effect on economic security.[39] As with temp work, the objective for policymakers is to identify industries where part-

34 Ibid.

35 Susan J. Lambert, Anna Haley-Lock, and Julia R. Henly, "Schedule flexibility in hourly jobs: Unanticipated consequences and promising directions," *Community, Work & Family* 15.3: 293-315, 2012.

36 Phillip L. Rones, Randy E. Ilg, and Jennifer M. Gardner, "Trends in hours of work since the mid-1970s," *Monthly Lab. Rev.* 120:3, 1997.

37 Neil Fligstein and Taek-Jin Shin, "The shareholder value society: A review of the changes in working conditions and inequality in the United States, 1976 to 2000," UC Berkeley: Institute of Research on Labor and Employment, 2003; Keith Forrester and John Payne, "Trade union modernization and lifelong learning," Research in post-compulsory education, 5.2: 153-171, 2000.

38 Robert Valletta and Leila Bengali, "What's behind the increase in part-time work?" FRBSF Economic Letter 24, 2013.

39 H. Luke Shaefer, "Part-time workers: some key differences between primary and secondary earners," *Monthly Lab, Rev.,* 132:3, 2009.

time work has contributed to the degradation of labor standards.

The United States lacks national data on the extent and growth of independent contracting. The 2013 census survey data revealed that 10.2 percent of the workforce reported being self-employed in their main job.[40] Researchers speculate that about 64 percent of these workers—or 6.5 percent of the overall workforce—are independent contractors.[41] Overall, the percentage of self-employed has remained relatively stable over time, but what is interesting is the sheer diversity of the population in this category. The occupations range from management consultants, lawyers, doctors, farm managers, and architects to insurance agents, construction contractors, dry cleaners, graphic design freelancers, and real estate brokers to street vendors, barbers, auto mechanics, landscapers, cab drivers, caregivers and truck drivers. Similarly, educational backgrounds range from workers with less than a high school degree to workers with advanced degrees.

Indeed, there are legal disputes in the United States and Europe over whether workers who provide services through online intermediaries, such as Uber, Deliveroo, or Task Rabbit, can be categorized as employees. In the United States, these jobs accounted for 6.9 percent of workers according to the 2017 survey data on contingent workers from the U.S. Bureau of Labor Statistics. While this number is low (and in fact has not changed much in the last two decades), the survey only measures what workers were doing at their main job (the job where they worked the most hours) and does not pick up workers who do independent contracting for supplemental income. If the survey did so, the number of workers engaged in this type of work would most likely be much higher.

Representative data on the number of subcontracted jobs or workers in the United States are almost non-existent or deeply flawed. As a result, it is not possible to estimate the number or percentage of workers affected by the subcontracting practice. Subcontracting is defined as a fundamental economic transformation in the vertical disintegration of the "firm."[42] At the height of mass industrialization, the dominant economic organizations were large, complex and vertically integrated. This meant that most stages of the supply chain for a given product or service were incorporated within a single firm. In the last twenty to thirty years companies have increasingly focused on their "core competencies" and contracted out some other functions to suppliers and contractors, domestically or internationally. This shift to networked production has had many drivers, key among them the economic crisis of the 1970s, globalization, new communication and transportation technologies, and industry deregulation.[43] There is sparse data on the prevalence and job-quality effects of the practice of subcontracting, but generally, subcontracting has been identified as taking place when:

- Subcontracting as an action by an employer: Subcontracting is a discrete decision made by an employer to take a function (sometimes previously done in-house) and contract it out to another firm or company. Thus, a contractor is the company that provides the goods or services being subcontracted and the contracting company is the firm that contracts the function.

- Subcontracted jobs: The unit of analysis is the job that has been subcontracted. The direct employer is the contractor company, and the job may be either on-side or off-site.

The impact of subcontracting on job quality is not inherently negative and subcontract work not inherently contingent. The impact of subcontracting on wages, benefits and other job-quality outcomes differs depending on a host of factors—the economics of the contractor industry, the reason for subcontracting, the size of the contractor firm, the presence or absence of unions, the skills requirements of the occupation, government regulation and enforcement, and so forth. As a result, there is a range of outcomes, from the fissured employment relationship and exploitation

40 Annette Bernhardt, "Labor standards and the reorganization of work."

41 Rachel West, et al., "Strengthening Unemployment Protections in America: Modernizing Unemployment Insurance and Establishing a Jobseeker's Allowance," Center for American Progress, National Employment Law Project, and the Georgetown University Center on Poverty and Inequality, 2016.

42 Walter Powell, "Neither market nor hierarchy: Network Forms of Organization," *Research in Organizational Behavior,* 12: 295-336, 1990.

43 Mike Piore and Charles Sabel, *The Second Industrial Divide: Possibilities for Prosperity,* New York, NY: Basic Books, 1984.

that Weil[44] documented in the janitorial and fast food industries to the full-time, permanent jobs of many segments of the professional and business service sectors.[45] This area needs much more research to identify the conditions under which contracting out does, or does not, result in worse outcomes for workers.

In general, the evidence suggests that nonstandard work has increased in the United States and in Europe and those especially impacted are already the low-wage and low-skilled worker. Ten of the fastest-growing jobs are in the low, low-mid or top paid quintiles while the fastest-contracting jobs are in the middle of the wage distribution in the United States and in Europe. Analysis of the European Job Quality Index for the 28 EU member states shows that parallel to changes in employment patterns, there has also been an increase in low-wage work, working poverty and temporary employment—all indicators of precarious work. While the data in the United States is limited, the analysis by Katz and Krueger suggest a sharp rise in contingent and alternative work arrangements, including temporary help agency workers, on-call workers, contract company workers, and independent contractors or freelancers.[46]

What Drives Wage Gaps and Changes in Employment Arrangements in the United States and Europe?

We live in a changing post-industrial era that is marked by a shift away from manufacturing toward service-sector industries and from centralized production of standardized products to decentralized forms of production of diverse products for a variety of markets. This all in a globalization era marked by neoliberal economic and political policies.[47] These policies have worked together to create a global market economy based on competitiveness and individualism that favors financialization, deregulation and new modes of corporate management.[48]

There are two important points to raise when exploring the drivers of labor market change in the United States and the EU. First, the changes in wage and job quality discussed above have not happened in a vacuum. As noted, a major role has been played by the changing macroeconomic situation and the policy responses to these changes in the United States and Europe. Other features of labor markets and employment systems, including institutional change—i.e., the decrease in the role of unions in setting quality work and wages and the flexibilization and deregulation of labor market protections (especially in Europe)—are important mechanisms which have impacted the quality of jobs and wages.[49] Keeping labor costs down was seen as essential to remaining competitive, as well as to preventing the transfer of production elsewhere, and in order to do this the European Commission, in consort with other international bodies, such as the OECD, started to argue in favor of "labor market flexibility." Here "flexibility" took many shapes—from wage to employment to job to skill flexibility. Key here is that the deregulation of employment protection law in EU member states fell under the umbrella of "flexicurity," in particular the EU's "better regulation agenda" and its follow-up "smart regulation agenda." A continuation of the trend toward greater flexibility has resulted in a rise in nonstandard forms of work, offering less protection for workers and less predictability in terms of income and working hours, as noted above. Wage gaps are therefore persistent because of changes to job quality vis-à-vis the spread of precarious forms of employment (above all temporary contracts) and are especially felt based on one's race, gender and immigration status in addition to skills-set.

Second, these changes have been driven by a variety of often contradictory factors.[50] For example, many of the long-term structural changes toward a knowledge-based economy (such as rising level of skills and technological change) were expected to bring overall improvements in the quality of work, at least especially

44 David Weil, "Enforcing Labor Standards in Fissured Workplaces: The U.S. Experience," *Economic and Labour Relations Review,* 22(2): 33, 2011.

45 Murem Sharpe, "Outsourcing, Organizational Competitiveness and Work," *Journal of Labor Research,* 18.4: 535, 2001.

46 Lawrence F. Katz and Alan B. Krueger, "The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015."

47 Guy Standing, "The Precariat—The new dangerous class," *Amalgam,* 6.6-7: 115-119, 2011.

48 Kevin Doogan, *New Capitalism?* Polity, 2009.

49 Agnieszka Piasna, "'Bad jobs' recovery?"; David Brady and Thomas Biergert, "The rise of precarious employment in Germany."

50 Agnieszka Piasna, "'Bad jobs' recovery?"

for the highly-skilled group of workers.[51] And while this is true for a higher skill set, this change has proven more difficult for lower-skilled workers.

Moreover, while the 2008 financial and economic crisis wiped out many poor-quality jobs initially, which translated into overall average job-quality levels rising at the country level in the EU and in the United States, it was also the rise in unemployment and the national (U.S.) and supranational (EU) response in the wake of the crisis to stem the tide of job loss that contributed to weakened job and wage quality in the long term. In the EU, it was the adoption in 2011 of the Competitiveness Pacts[52] under the EU's Open Method of Coordination that solidified a new, commonly agreed upon political framework for the implementation of structural reforms that sought to improve competitiveness, employment, financial stability and the fiscal strength of each country. In the United States, while not national policy, at the federal level it was the Obama administration, for example, that made cuts to benefits and wages for auto workers a condition for receipt of the federal auto industry bailout. In both examples, the main adjustment tool in the United States and EU crisis-management strategy was wage reduction. But this happened at the expense of the decline in collective representation that considerably weakened the market power of workers, giving employers the upper hand in imposing less favorable work and employment conditions. This, in the hope that cuts to labor costs would increase competitiveness that, in turn, would result in job creation as opposed to job shedding.

"Liberalization of labor markets and the rise of precarious employment reflect the growing political power of business relative to organized labor"

Moreover, trade unions have traditionally played an important role in providing social support that can help workers cope with high work demands and give a sense of control over how their work is organized,[53] while they also negotiate on behalf of members over organizational change or adverse working conditions in the United States and the EU. Trade unions put emphasis on promoting vocational training and lifelong learning in the workplace, and they also play an active role in developing learning opportunities for their members through negotiated time off and investment.[54] One of the most important institutional changes to the labor market, generally, has been the decline of unionization in the United States, and to varying degrees in the EU. There is a huge divergence in trade union density and collective bargaining coverage across EU countries. With respect to collective bargaining, countries with strong collective actors retained or even improved their outcomes while countries with weak collective actors saw further deterioration in collective interest representation.[55]

The Nordic countries, with their strong bargaining culture and union mobilization, have preserved high levels of bargaining coverage and membership rates. European countries have experienced an overall decline in collective-interest representation, mainly driven by shrinking trade union density. For example, Brady and Biegert[56] argue that Germany's coordinated market economy is evolving toward a more liberalized labor market,[57] one reason being the decline of unionization.[58] Unionization in the country declined considerably in terms of membership ("density")

51 Ibid.

52 The Competitiveness Pacts was an intergovernmental agreement between all member states (except Croatia, Czechia Republic, Hungary, Sweden and United Kingdom).

53 Stephen Wood, "Job characteristics, employee voice and wellbeing in Britain," *Industrial Relations Journal,* 39.2: 153-168, 2008.

54 Keith Forrester and John Payne, "Trade union modernization and lifelong learning"; Andrew McCoshan, "How Trade Unions Ensure Quality in Workplace Learning," European Commission, February 26, 2016.

55 Agnieszka Piasna, "'Bad jobs' recovery?"

56 David Brady and Thomas Biergert, "The rise of precarious employment in Germany."

57 Wolfgang Streeck, Re-forming capitalism: Institutional change in the German political economy, Oxford University Press, 2009.

58 Anke Hassel, "The erosion of the German system of industrial relations," British journal of industrial relations, 37.3: 483-505, 1999.

and coverage.[59] These changes are particularly consequential to workers at the bottom of the labor market.[60] Germany, for example, has had massive wage moderation since 2000, at the same time as collective bargaining has slowly eroded and the use of opening clauses[61] that allow for working-time adjustments to contracts has increased. This has happened in parallel to the rise in the low-wage sector.

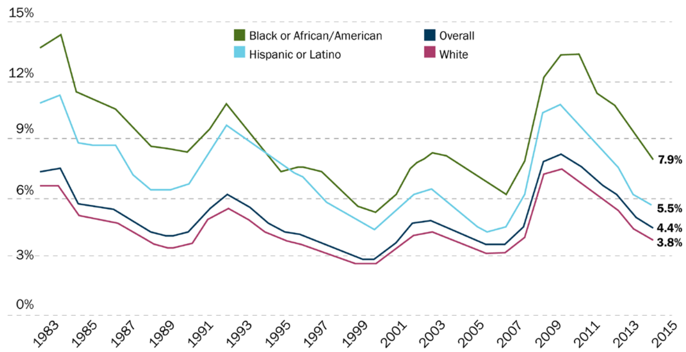
In Mediterranean countries, the consequence of the reforms implemented after the crisis, and the conditionality imposed on those that were subject to IMF-EU bailout programs, is that collective bargaining has been substantially weakened, especially in Greece. In both liberal (United Kingdom) and post-transition countries, collective-interest representation was already weak and recent years have seen national legislation further hollowing out unions and collective bargaining.

Consistent with liberalization, many of the institutional changes across European countries have removed protections for workers and deregulated labor markets. Precarious employment has increased partly as a result of simply weakening the institutions that traditionally contributed to egalitarianism and security. In this way, the liberalization of the labor markets and the rise of precarious employment reflect the growing political power of business and other free-market-oriented political actors relative to the declining power of organized labor in the United States and Europe.

Disaggregated Data: What Is Happening at the Subnational Level?

How do these macro-level changes translate at the subnational level in the United States and Europe? Very differently depending on place. A spotlight on the effects of labor market change at the city level helps us understand not only the deep variance between locations but, crucially, also within and across population groups by place.[62] The degree of concentration—the extent to which unemployed workers live in neighborhoods where many of their neighbors are also jobless or low-wage versus being evenly spread out across a region—has implications for how to best target resources to connect unemployed or low-wage workers to better jobs and career pathways.[63] And most important, given the legacy of racial segregation in the United States, we need to know how past failures to provide quality education, access to jobs and transit, for example, still manifest themselves in today's cities and neighborhoods. There may be some ethnic legacy factors in place economics in continental Europe (i.e. excluding the United

Figure 10: U.S. national unemployment rate by race



Source: 1982–2015 annual average of quarterly rates for workers 25 and older, Bureau of Labor Statistics Current Population Survey

59 Union density in Germany was nearly 35 percent in 1984, and it was below 18 percent in 2013. Union coverage was at 85 percent in 1984 and 61.1 percent by 2010. David Brady and Thomas Biergert, "The rise of precarious employment in Germany."

60 Previous research clearly establishes that strong unions reduce wage inequality and working poverty, and improve working conditions. David Brady, Regina Baker and Ryan Finnigan, "When Unionization Disappears: State-Level Unionization and Working Poverty in the United States," American Sociological Review, 78(5), 872-896, 2013; David Brady, Andrew Fullerton and Jennifer Moren Cross, "More than Just Nickels and Dimes: A Cross-National Analysis of Working Poverty in 18 Affluent Democracies," Social Problems, 57(4), 559-585, 2010; Arne L. Kalleberg, "Precarious work, insecure workers: Employment relations in transition," American sociological review, 74.1: 1-22, 2009.

61 According to the German Works Constitution Act (Betriebsverfassungsgesetz), management and the works council are not allowed to conclude a works agreement that deals with collective-bargaining issues. However, if an opening clause exists in a collective agreement and if certain preconditions hold, companies may deviate from the collective standards. According to a study using the IAB Establishment Panel, 2005, 13 percent of the companies surveyed in eastern and western Germany that are covered by collective bargaining confirmed that opening clauses exist in their collective agreements. Of these, 52 percent made use of opening clauses in 2005. These clauses were most frequently used in the transport and communications sector in western (74 percent) and eastern Germany (88 percent). Companies in the construction sector in eastern Germany (89 percent) as well as those in the consumer goods sector in western Germany (73 percent) also applied opening clauses frequently. Sandra Vogel, "Use of Opening Clauses in Collective Agreements," Eurofound, July 17, 2006.

62 Martha Ross and Natalie Holmes, "Employment by race and place: snapshots of America," The Brookings Institution, February 27, 2017.

63 Justin Scoggins, Sarah Treuhaft, and Sheila Xiao, "Race, Place, and Jobs: Reducing Employment Inequality in America's Metros," U.S. Program for Environmental and Regional Equity, January 2017.

Kingdom) as well, but there are significant data limitations that prevent drawing clear comparisons here. And, given these limitations, we cannot explore the relationship between indicators discussed in Chapter 2—part-time, temporary work with place and race and ethnicity. Thus the review of the research in this chapter rely on standard indicators for analysis: the correlation between unemployment rates, earnings and place in continental Europe[64] and for the United States and the United Kingdom (where data on race/ethnicity is collected) unemployment rates, earnings, race/ethnicity, and place.[65] The picture that emerges is that wage and employment status is highly correlated with place, which has implications for cities designing equitable economic development initiatives.

While national unemployment in the United States is at 3.9 percent and for the EU it is at 6.7 percent (as of October 2018), when the data is disaggregated to the city level in the United States, racial/ethnic disparities in unemployment and earnings remain stubbornly high. Since 1960, the unemployment rate for blacks in the United States has stayed close to twice that of whites.[66] Employment for the former is actually even bleaker because a disproportionate number of black residents are out of the labor market altogether, having given up on working or looking for work, are disabled, and/or are incarcerated or formerly incarcerated.[67] Unemployment rates for Hispanics, while never as high as those for blacks, have always been dramatically higher than those of whites as well.[68]

At the city level, Ross and Holmes' data analysis shows stark black-white disparities within individual cities too. Chicago and San Francisco, for example, have strong economies but nevertheless have the lowest black employment rates (56 percent and 53 percent, respectively) but the highest white employment rates (83 percent and 84 percent).[69]

With a difference of over 20 percentage points, Washington, DC and Manhattan show large black-white employment gaps with white employment at 88 and 85 percent, respectively, compared to 64 and 62 percent for blacks.[70]

Scoggins et al.'s analysis of 150 largest U.S. metros indicate that Cleveland and Toledo, Ohio, Detroit and Flint, Michigan, Reading, Pennsylvania and Rochester, New York are in the top 10 for racial and spatial inequality in unemployment. In these six metros, unemployment rates are 9 to 11 percentage points higher for workers of color compared with white workers, and a large proportion of the unemployed live in high-unemployment neighborhoods, particularly unemployed workers of color. We know from Scoggins et al.'s research that the overlap between racial and spatial inequality inhibits economic success and is a major factor driving high levels of downward mobility among middle-income black families.[71]

Figure 11 shows that the regions with high racial inequality in unemployment (toward the top of the chart, or high on the y-axis) also tend to have high spatial inequality in unemployment (to the right, or high on the x-axis). The trend line shows that the correlation is rather strong.

Detroit, Michigan, exemplifies the overlap between racial and spatial inequality in unemployment. As Figure 12 shows, areas of high unemployment and areas where people of color live have a high degree of overlap. About 18 percent of tracts in the Detroit region are considered high-unemployment neighborhoods, and they all tend to be home to large shares of people of color. Not surprisingly, the Detroit region also has one of the largest unemployment gaps between

64 Socioeconomic segregation is defined as residential segregation of population groups based on occupation, income and/or education. Sako Musterd, Szymon Marcińczak, Maarten Van Ham, and Tiit Tammaru, "Socioeconomic segregation in European capital cities: Increasing separation between poor and rich," *Urban Geography,* 38, no. 7: 1062-1083, 2017.

65 Justin Scoggins, Sarah Treuhaft, and Sheila Xiao, "Race, Place, and Jobs."

66 Algernon Austin, "A jobs-centered approach to African American community development," Economic Policy Institute, 2011.

67 The unemployment indicator is flawed because it excludes discouraged workers who may want a job but have given up looking for one and thus are not counted as being in the labor force.

68 Sam Magavern, "Working Toward Equality: Employment and Race in Buffalo," Partnership for the Public Good, 2016.

69 Martha Ross and Natalie Holmes of Brookings sought to better understand the correlation between employment data and race in the cities and counties with populations over 500,000 in the United States. They found considerable variation by race and, not surprisingly, that racial employment patterns generally track overall employment patterns. But, as they point out, a deeper look indicates that the interplay between race, geography, and the economy produces some notable variations in racial employment rates by place, with the most dramatic differences among blacks and whites.

70 Martha Ross and Natalie Holmes, "Employment by race and place."

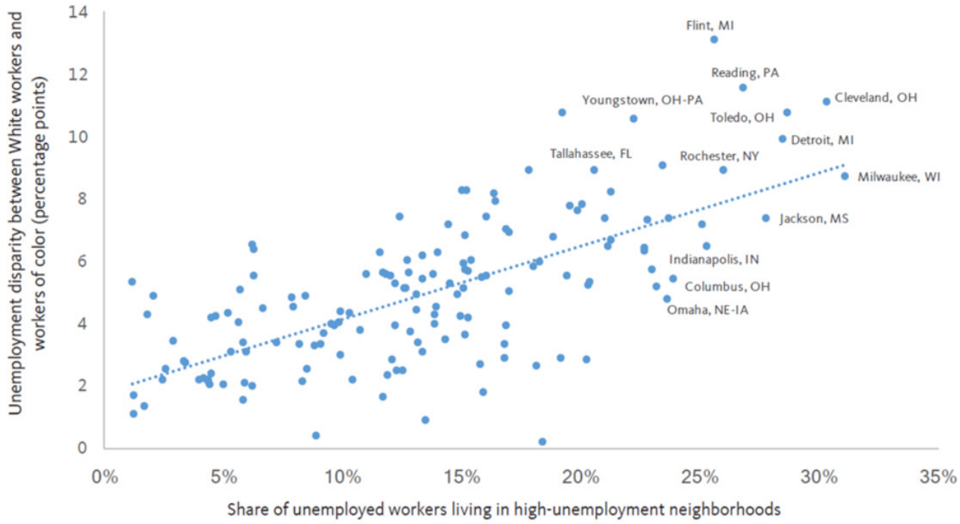
71 Justin Scoggins, Sarah Treuhaft, and Sheila Xiao, "Race, Place, and Jobs."

people of color and whites: 10 percentage points, or the seventh-highest among the largest 150 regions.[72]

The analysis by Ross and Holmes shows that the places with the highest rates of black employment are all suburban counties, and most have small black populations below the national average of 12 percent. With one exception (Ventura County, California), all are majority white. About half are in the mid-Atlantic and New England regions, with the rest scattered throughout the country in Texas, California, and Kansas. A few adjoin central cities with some of the lowest employment rates for blacks. For instance, both Baltimore County and Montgomery County, Pennsylvania, have black employment rates of 80 percent, compared to rates below 60 percent in neighboring Baltimore and Philadelphia, respectively. These two cities are among the most racially segregated in the country and have high levels of concentrated poverty (neighborhoods where at least two out of every five people are poor).[73]

Similar to blacks, the employment rates of Hispanics are also typically highest in counties and in places where they make up a disproportionately small share of the population.[74] They are scattered geographically throughout the country, and all either represent urban cores or adjoin major metropolitan centers.

Figure 11: Regions with larger unemployment gaps by race tend to have more spatially concentrated unemployment overall



Source: PolicyLink/PERE analysis of the 2015 five-year American Community Survey summary file
Note: Racial inequality in unemployment is measured as the unemployment rate for people of color minus the unemployment rate for whites. Spatial inequality in unemployment is measured as the percentage of all unemployed (regardless of race/ethnicity) who live in high-unemployment census tracts.

Jurisdictions with the lowest Hispanic employment rates are also scattered but include more cities like Cleveland (in Cuyahoga County), the Bronx in New York City, Philadelphia, and Detroit, as well as counties with a historic agricultural base and higher-than-average Hispanic population such as Stanislaus County in California's Central Valley (44 percent Hispanic) and Hidalgo County in southern Texas (93 percent Hispanic).

Nationally, black wages fell significantly between 2000 and 2014.[75] In recent years, as whites and Hispanics saw small earnings gains, blacks witnessed none. In New York State, for example, between 2000 and 2014 wages rose 4.1 percent for whites, Hispanic wages rose 9.1 percent, but black wages did not change. In fact, as Sam Magavern has shown, even though wage differentials vary greatly by industry, people of color are concentrated in the lower-paying jobs at the less profitable businesses and enjoy less seniority.[76]

72 Ibid.

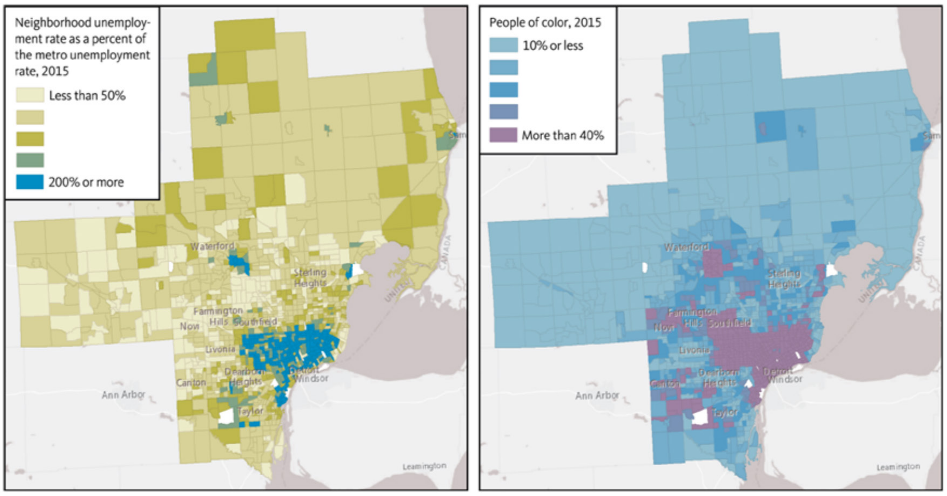
73 The Baltimore and Philadelphia regions are experiencing some of the largest increases in the suburban black population, as are the Washington and Dallas regions, both of which also have high black employment rates in suburban jurisdictions. Black suburbanization appears to be similar to white suburbanization, in that those moving to the suburbs of both races are younger, have higher levels of education, and tend to be married couples with children. Martha Ross and Natalie Holmes, "Employment by race and place."

74 Ross and Holmes point out that this is generally true except for Fairfax County, Virginia, and Salt Lake County, Utah, where Hispanics account for 17 percent of the population, equal to the national average. Martha Ross and Natalie Holmes, "Employment by race and place."

75 Connie M. Razza, "Wall Street, Main Street, and Martin Luther King Jr. Boulevard: Why African Americans Must Not Be Left Out of the Federal Reserve's Full Employment Mandate," National Campaign for a Strong Economy, 2015.

76 Sam Magavern, "Working Toward Equality."

Figure 12: In Detroit, high-unemployment neighborhoods correlate with communities of color



Source: PolicyLink/PERE analysis of the 2015 five-year American Community Survey summary file
Note: Areas in white are missing data. People of color includes all racial/ethnic groups other than non-Hispanic white.

Europe

Analysis of the available EU-wide harmonized microdata sets—such as the European Social Survey, the Eurobarometer, the EU Labor Force Survey, the EU Survey of Income and Living Conditions, or the European Community Household Panel—reveals the lack of data disaggregated by ethnicity at the subnational level in Europe: such data is either not available at all or not available due to anonymity, or the number of observations are too small to be meaningful and representative.[77] As a result, it is very difficult to conduct analysis of these issues at the subnational level. The problem is that there are very different levels of recording ethnicity in general, and therefore as relates to the labor market among continental European countries. This makes data scarce and interpretation difficult. The United Kingdom is the exception, though, as an ethnic group question has been included in the England and Wales census since 1991. Through a comprehensive study of census data for the whole population in England and Wales in 2001 and 2011, Gemma Catney and Albert Sabater of The Joseph Rowntree Foundation developed an evidence base on the persistence of ethnic inequalities in the labor market over time and between places.[78] Their study explored differences between ethnic groups in labor market participation (unemployment, employment, and hours worked), and employment status (low- and high-skilled occupation levels) for those in work.[79] Since labor market experiences are not equal between places, evidence is provided on how geography matters for unemployment and for segregation in occupational types, and how this varies between ethnic groups.

In terms of unemployment, the findings of Catney and Sabater suggest that there is ongoing ethnic minority disadvantage in the United Kingdom compared with the White British majority group.[80] This is evident in differences in unemployment rates between places for each ethnic group as well as between ethnic groups, and these ethnic inequalities between groups have persisted over time. Nevertheless, in terms of employment, ethnicity and place, some local authorities were more inclusive than others. For example, Birmingham and several districts in London feature among the top five municipalities for unemployment for several ethnic groups (Indian, Pakistani, Chinese, and African). Though inner London districts feature

77 For example, there is a question in the European Social Survey dataset asking whether respondents belong to the "ethnic minority" group in their country. This question would be very useful for analysis; however, there is insufficient information about the labor force participation of working-age individuals belonging to ethnic minority groups in member states. Martin Kahanec, Anzelika Zaiceva, and Klaus F. Zimmermann, "Ethnic minorities in the European Union: An overview," in Martin Kahanec and Klaus Zimmermann (eds), Ethnic Diversity in European Labor Markets: Challenges and Solutions, Edwin Elgar: Cheltenham, 2011.

78 Gemma Catney and Albert Sabater, "Ethnic Minority Disadvantage in the Labor Market," Joseph Rowntree Foundation, 2015.

79 The project uses data from the 2001 and 2011 censuses, which report information on economic activity and occupational groupings of the entire working-age population belonging to major ethnic groups in England and Wales. In addition to rates of employment and unemployment, the censuses include an indicator (index of dissimilarity) to measure the spread of each ethnic minority group across the nine major occupational categories, as compared to the White British group. The project explores labor market inequalities at three geographical levels: country, Local Enterprise Partnerships, and local authorities (comprising districts and unitary authorities). The study also uses data for major occupational types, ranging from elementary to professional occupations. Gemma Catney and Albert Sabater, "Ethnic Minority Disadvantage in the Labor Market."

80 Ibid.

in the top unemployment rankings while outer London districts are commonly listed among those with lowest unemployment. Concentrated pockets of unemployment are particularly notable for the African group in London and parts of the north of England, and in the northwest for the Pakistani group. For the African group in particular, there are large percentages not in employment in most major urban areas, including in London and the northwest. Compared with the African and Pakistani groups, unemployment is fairly evenly spread for the Indian and Chinese groups, with lower rates throughout England and Wales. The Caribbean group has notably higher unemployment in parts of London, Birmingham and the north east than in other places. London, Birmingham and parts of northern England have particularly high rates of unemployment for the Bangladeshi group. All White ethnic groups tend to have lower rates of unemployment and this is evenly spread with the exception of the White Gypsy/Irish Traveller group that has high unemployment throughout much of England and Wales. What we do not know from this analysis is "why" some areas are more inclusive, and others are not and this calls for further research in this area.

Unemployment rates in the EU were higher in cities. In 2014, in 12 member states unemployment rates in cities were higher than those in towns and suburbs or rural areas—including Germany and the United Kingdom. There were eight member states—including Spain—where the highest unemployment rates were recorded for those living in rural areas, while the highest unemployment rates in seven—including France and Poland—were recorded among those living in towns and suburbs. In Italy, the unemployment rates for cities and rural areas were the same.[81] But how do these trends look specially in cities? Is there a high concentration of the unemployed there? In the absence of spatial analysis, the OECD has looked at levels and distribution of household disposable income in OECD metropolitan areas and correlated this with place to assess concentration in cities. The results highlight stark differences in income levels and inequality within metropolitan areas, even for those belonging to the same country. Larger metropolitan areas feature, on average, higher levels of household disposable income but also higher income inequality.

The analysis provides comparable statistics on income levels and inequality for 216 metropolitan areas in a set of OECD countries.[82] It provides an assessment of spatial segregation of households by income levels within metropolitan areas and explores the main factors associated with the phenomenon. The spatial segregation was investigated by looking at local jurisdictions within a metropolitan area rather than at neighborhoods. The reason for this is to try and tease out issues of metropolitan governance, on the one hand, and the capacity of local jurisdictions to provide public goods that might shape the decisions of households and thus hinder or spur spatial segregation, on the other. The study found that in all countries, with the exception of Canada, income inequality in metropolitan areas is higher than the national average. In several European countries where levels of inequality are on average relatively low, it is the metropolitan areas that have experienced an increase of inequality. This is the case for Denmark, Norway and Sweden. It is large cities that are on average more unequal than smaller ones.[83] Nevertheless, the findings also reveal that the segregation levels of the better-off and the worst-off are still lower in metropolitan Europe than in the largest metropolitan areas in the United States. Even the 10 least-segregated U.S. metropolitan areas are more divided by socioeconomic status than any European city in this study.

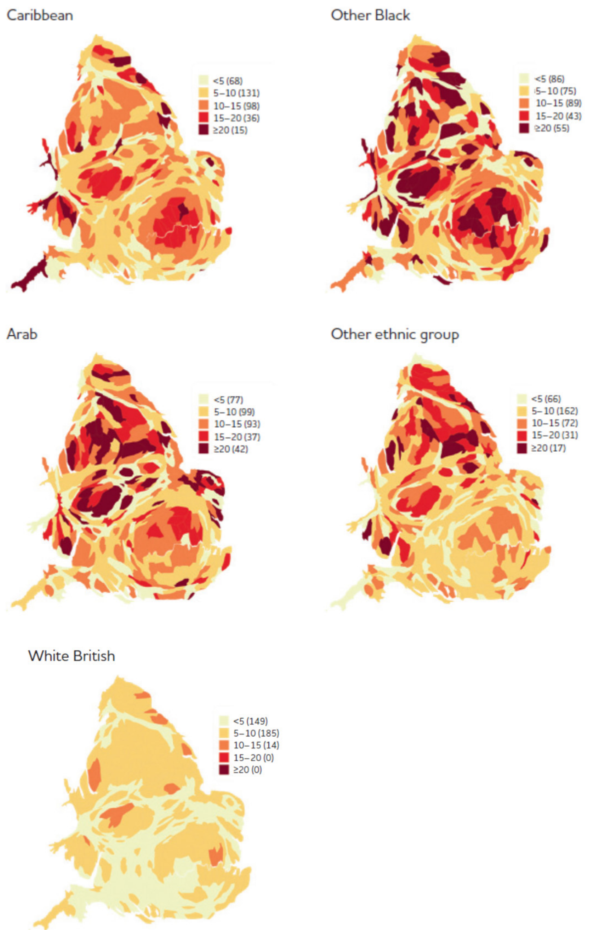
Overall, more unequal metropolitan areas tend to have higher levels of income segregation across

81 Mariana M. Kotzeva and Theodóra Brandmüller (eds.), "Urban Europe: Statistics on Cities, Towns and Suburbs," Eurostat, 2016.

82 Despite the importance of the issue, comparative assessments of income levels and inequality in metropolitan areas across different countries are rare, notably because of the lack of robust and comparable data. Country-level measures of the distribution of household disposable income typically come from household surveys, which are generally not representative at the regional or metropolitan level. Other sources of income data, such as tax records, available at a fine level of geographic detail are based on different definitions of incomes and are hardly comparable across countries. The paper overcomes these data limitations by relying on a common method to estimate household disposable income levels and income inequalities in OECD metropolitan areas based on tax records. Income levels were made comparable across countries by benchmarking income values for metropolitan areas coming from the different sources to the regional estimates of household disposable income from the OECD Regional Well-being Database. Such a method is applied to 18 countries (11 countries for income inequality), covering 216 of the 281 OECD metropolitan areas. Justine Boulant, Monica Brezzi, and Paolo Veneri, "Income Levels and Inequality in Metropolitan Areas: A comparative approach in OECD countries," OECD, 2016.

83 The Gini coefficients for the metropolitan areas considered in this paper are positively associated with the metropolitan population, even after controlling for the initial level of income and for the country to which each metropolitan area belongs.

Figure 13: Unemployed aged 16 and over, by ethnic group. Local authorities in England and Wales, 2011



Source: Catney and Sabater (2015), "Ethnic Minority Disadvantage in the Labor Market," Appendix 5

their municipalities, but the correlation is weak (the correlation with the Gini coefficient is 0.21). Since 2007 many metropolitan areas in France—Nantes, Toulouse, Montpellier, Rennes, or Grenoble—and in North-Central Europe (Copenhagen, Oslo, Graz, etc.) have experienced higher average household income and reduced spatial inequality. Other metropolitan areas, especially in Belgium and France, have combined income growth with a slight fall in spatial segregation. Many other metropolitan areas have experienced lower household income since 2007; in the case of Dayton, Indianapolis, Norfolk, and Raleigh in the United States, or Catania, Bari, Bologna and Naples in Italy, these declines have combined with an increase of spatial segregation. Musterd et al's analysis of national censuses and registers for 2001 and 2011 indicates that socioeconomic segregation in Amsterdam, Athens, Budapest, London, Madrid, Oslo, Prague, Riga, Stockholm, Tallinn, Vienna, and Vilnius has increased.[84] London, Riga, Madrid, and Athens are seen as the most unequal cities, and Stockholm and Prague the most equal.[85]

This chapter has provided a brief summary of what has changed and why wages have stagnated, and of why the quality of work has changed in the United States and Europe since the 1980s. In discussing this topic, it is important to stress that context matters—the United States is one country while the EU consists of 28 countries. This makes it impossible to draw direct comparisons between the two. Nevertheless, labor market change has happened and moreover—though at different times (and to different degrees between countries)—their drivers and the underlying rationale for the need for change are similar. Important here is that the effect of these changes is felt at the local level.

There is a broad list of problems cities face in the context of inequality but, if we continue to focus on the two crucial factors of stagnant wages and rise of precarious work, we must then explore what tools cities might have to help drive structural change. The consequential point here is that cities' policy responses operate within this macroeconomic and political framework. The question is, what tools are at cities' disposal to help shape the structural change needed to counter the adverse effects—stagnant wages and rise in precarious work—of these macroeconomic and political changes?

84 Sako Musterd, Szymon Marcińczak, Maarten Van Ham, and Tiit Tammaru, "Socioeconomic segregation in European capital cities."

85 The authors attached a value of 3 to cities where the Gini index was one standard deviation above the average of the 12 cities researched; the authors attached a value of 1 to those cities where the value was one standard deviation below the average. All other cities were given a value of 2.

A FRAMEWORK FOR A HUMAN-CENTERED APPROACH TO INCLUSIVE ECONOMIC DEVELOPMENT

Systems change is needed, but what does that mean and how does that look at that city level? Cities on both sides of the Atlantic face macro-level challenges and legacy problems in their struggle to see their populations have equitable quality employment. Focusing on stagnant wages and the rise of precarious work, the question then becomes, how can we drive structural change toward more inclusive growth in transatlantic cities and regions?

This chapter highlights the conclusions of the taskforce shaped into recommendations by the authors, who have sought to fairly represent the range of views about how to push toward systems change and more inclusive growth. The taskforce meetings generated an incredibly rich dialogue and specific approaches, which we have woven together into recommendations applicable to policymakers and practitioners on either side of the Atlantic. These are not intended to represent a holistic response to the numerous drivers of the changing nature of work and how this is reproducing, or to the furthering of inequality in transatlantic cities. It does, though, suggest an approach that is relevant to cities, namely fundamentally shifting the policy framework to be more human-centered.

Accordingly, this chapter outlines the action needed to reorient the focus of local economic development along a more human-centered approach in policy formulation and implementation. For taskforce members, a human-centered approach means keeping people at the heart of policy design, implementation, and evaluation. It is one that prioritizes the well-being of people over efficiency, profit and global competitiveness. In the case of urban and regional policy, this means understanding what constituents need, what they aspire to, and the barriers they face in order to craft an appropriate response. It means balancing "people-first" inputs with city aspirations for economic growth, job creation, and small-business development. It also requires local leaders to be attuned to these needs so as to understand the intended and unintended impacts of their decisions on their constituents. A human-centered approach is not just a "feel good/do good" perspective; there are tangible benefits to it.

Utilizing empathy and a human-centered approach has been a cornerstone of design-thinking processes that have evolved in the business world and shaped some of the most fundamental consumer products and services available today. Pioneering thinkers at the Stanford Design School and Ideo have played a leading role in the mainstreaming of design thinking and its spread outside of the business realm. At its heart design thinking is a problem-solving process that puts users or customer needs at the center of the process. A complementary approach, community-centered design, draws on the same principles of empathy and lived experiences to understand needs and solve problems at a community level. Applying a human-centered or community-centered design approach to urban policy making is not without challenges. Politics, government bureaucracy and the basic economic structure of the United States and Europe complicate the implementation of this approach in policy and planning—and scaling to a system change is also not without challenges.

Despite the challenges and critiques, there are benefits to a human-centered approach to policy making. First, by listening to people's experiences and engaging to understand their needs, one has a better understanding of the problem (or opportunity) one is trying to solve.

Assumptions and bad data can lead to policy solutions or approaches that do not actually solve the problem or create unintended problems. While time- and resource-intensive in the short term, human-centered processes can lead to better long-term outcomes. Second, directly engaging stakeholders in the process to define the problem creates an opportunity to engage them in designing solutions.

This Chapter first outlines the vision for a more human-centered policy planning process to inform how transatlantic urban and regional leaders could infuse their thinking about designing for inclusive growth and the future of work. The process recommendations suggested below go hand in hand with the specific policy levers identified by the taskforce. Overall the recommendations seek to thread the needle between process and policy in order to advance equity and achieve key outcomes: higher wages and better-quality jobs for residents generally, but especially for underserved and underemployed populations. While the key point is that the threading should result in a fundamental change in systems to a more human-centered local economy, it was clear that changing systems requires changing the narrative around the need for a people-first approach.

But how to do this and what does this look like from a practice perspective that is relevant transatlantically? As demonstrated above, job and GDP growth clearly indicate a recovery from the financial crisis and economic progress in most economies. In historic terms, transatlantic societies are more prosperous than ever. Nonetheless, the inability to address (or in some cases even recognize) the depth and gravity of the problems related to inequality at the city level are grounded, in great part, in the way we measure and understand economic success. A human-centered approach means that cities need to take the lead in formulating an economic development framework that does not orient policy nor evaluate its impact by traditional metrics (GDP, number of businesses attracted, or jobs created) but by the impact of decisions and policies on people's lives and socioeconomic wellbeing as well. To achieve this, a human-centered approach to economic development planning should be shaped by three mutually reinforcing principles:

- Personalize. Democratize and localize the economic development process by activating and engaging a range of stakeholders in the policy design and evaluation process.

- Strengthen data and forecasting capacity.

- Reframe Success. The economic development metrics used to guide how policy is formulated, designed, implemented and evaluated needs to be based on indicators that more accurately reflect the median socioeconomic wellbeing and experience of residents. Incorporating a wider set of indicators would also forcibly shift the way we perceive and thus communicate about economic development impact.

Such a human-centered approach to the economy, with more accurate indicators, a grounded narrative, and active engagement of a range of key stakeholders, including residents, would serve to strengthen the "inescapable network of mutuality"[1] that binds communities together.

From Principles to Enhanced Human-Centered Processes

As outlined in this report, a clear challenge in the United States and Europe is that the endeavor to create and maintain quality jobs at the city level has come up against macro-level changes: the global megatrends combined with cities operating within a federal or national (and in the EU case, supranational) policy framework. The effects of the megatrends and the federal/national policy framework will appear at the local level but how they appear, and how cities respond, will largely depend on the characteristics—economic and population structure, strengths, weakness and vulnerabilities—of the city. Therefore, context-specific responses prevail over "one size fits all" solutions. Building on the three key principles of a human-centered economic development planning process outlined above, this chapter provides recommendations to leaders and practitioners to shift their practice in four areas.

1 In the words of a taskforce member.

Transatlantic cities need to collect, analyze and use better data at the neighborhood/district and city levels to adequately assess the economy, labor markets, and human capital systems.

A lack of data is an impediment to action and evaluation. While better data collection should not be considered a goal in and of itself, nor an excuse to hold off on other processes or policies, it is invaluable to understand and identify the precise dynamics of socioeconomic exclusion in terms of quality jobs and wages. A clear understanding of the population and economics of and within the locality will provide city stakeholders the much-needed information to identify how to make strategic decisions about future job and wage development, and how to monitor and evaluate changes over time.

Cities need to conduct a review of existing city-level data to establish what data (if any) is currently used to make decisions about job creation and workforce development.

City governments should work with their national statistics offices and local universities to find solutions to the important deficiencies in data surrounding the growing trends of nonstandard work arrangements and sub-contracting, as well as disaggregated data by ethnicity in the European context. Here cities should ask themselves key questions: Where are they getting their data from (if there is even any)? Have past decisions about job creation and workforce development been made using accurate data or have decisions been made based on intuition or assumptions, or on old technologies?

Cities need better measurement and documentation of success.

This means aligning data collection with a clear set of outcomes—they need to ask themselves what kind and types of changes are they seeking? As part of the process, cities should develop how success will be measured and how this will be documented and reported. The measurement and documentation of success is a challenge for many cities, and this is partly driven by missed or misalignment of resources.

City-level data needs to identify current manufacturing, the type of jobs and skills currently used/needed, the wages paid, the number of hours worked and who is filling what jobs.

This data needs to be tracked over time to assess changes in the local labor market and to assess a city's economic strengths and its weaknesses and vulnerabilities.

Without the appropriate data, it is questionable whether cities are well-equipped to make the right decisions for all communities, because to do this decision makers need to have a firm grasp of what is happening on the ground. This is especially true in cities with tight labor markets. In cities with 3 percent unemployment, for example, it can be very hard to get the highest levels in city government to recognize that the issues of quality work and wages is still a priority—that there are still pockets of 15 percent (or more) unemployment and that attention needs to be paid to these. Detailed data analysis will help city stakeholders

The National Equity Atlas

Launched by PolicyLink and the Program for Environmental and Regional Equity, the National Equity Atlas (http://nationalequityatlas.org/) is a comprehensive data resource to track, measure, and make the case for inclusive growth in U.S. cities. It incorporates hundreds of data points from public and private sources for the 100 largest cities, the 150 largest metropolitan regions, all 50 states, and the country as whole. It includes historical data for several economic indicators as well as demographic projections through 2050. The database has several defining attributes: it incorporates measures of economic growth and social equity, it provides several decades of data for cities and metropolitan regions that are geographically consistent over time, and it includes data disaggregated by race/ethnicity for most indicators.

The National Equity Atlas is a unique data and policy tool that can help equip community leaders and policymakers to better assess, understand, and improve local economies, labor markets, and human capital systems to build a more inclusive economy.

know their community and the underlying trends in that community. Moreover, proper data analysis will help city stakeholders understand what needs to be customized at the local level. This is especially so if we look at economic development from a regional perspective—regional analysis will not capture what is happening in specific neighborhoods or areas within a city. Stakeholders will only reach different groups within the city if they have a deep understanding of what the specific job needs are, what the labor force population looks like, and who is included and excluded and why. Once city stakeholders understand the "why," they can start to address the deficits; i.e. what education/training is needed to build skills, who needs to be brought into the labor market, and how best to do this.

Transatlantic cities need to expand capacity around forecasting labor market change in terms of future jobs and skill needs

Many labor market outcomes, including occupational segregation, tend to reflect barriers to entry, ranging from lack of information about job options to discouragement and discrimination. Much more needs to be done to identify and bring people into the labor market, which means understanding and breaking down barriers. There are two sides to this need—better forecasting and better direct input from stakeholders using a human-centered approach. Here we focus on forecasting, while the input question is addressed further below.

The challenge with addressing wages and work is that wages are tied to level of education and/or vocational training. The higher the education/vocational training, the higher the wages. But where the service sectors will continue to support the fastest employment growth, a risk of over-qualification highlights the tension between demand and supply trends.[2] On the other hand, there is the risk of under-qualification—how do we prepare the workforce for the future? This requires forecasting labor market and skill needs. But forecasts are uncertain, and they often indicate a substantial range between projected future job numbers according to different assumptions and scenarios. There are two opportunity areas for strengthening local capacity for forecasting labor market change.

After having conducted analysis of local labor market strengths and weakness, city need to map these in order to inform key decisions about what is developed and how.

Knowing strengths and weaknesses enables and empowers cities to plan strategically for workforce development and should be a part of any strategic plan for their sustainable and equitable future.[3]

Cities need to better align the supply side with the demand side of the labor market.

The supply side (skills training) needs to be better informed about and aligned with trends on the demand side (employers/employment). There are some common features to doing this in the United States and Europe. Cities must look at the job types versus the skills needed and develop key pipelines and initiatives to meet skill needs in order to integrate residents into the labor market. This requires coordination between stakeholders and between policy groups (education, vocation, workforce development) as well as substantial investment in human capital.

Technology is reshaping the skills needed for work. Demand for cognitive, job-specific, and socio-emotional skills is undergoing significant disruptions. Technology changes the relative demand for skills in some sectors, increasing demand for high-skilled workers, with rising wages for these workers while wages for other workers stagnate. In the last couple of years there has been much talk about a "jobless economy" when tasks previously performed by humans are taken over by robots, especially those enabled with artificial intelligence.

It is widely assumed that workers involved in routine tasks that are "codifiable" are most vulnerable to replacement. The examples are numerous. Some economists make predictions on the number of jobs that will be lost in the current wave of technological advancement. But the wide range of predictions demonstrates the high uncertainty involved in estimating how technology will affect jobs. Wide

2 *Skills forecast: trends and challenges to 2030,* Cedefop, Eurofound, 2018.

3 Ibid.

differences stand out between those predictions. For the United States, for example, job automation estimates range from 7 percent to 47 percent, while in Japan 6 to 55 percent of jobs are at risk of being automated.119 Moreover, many argue that net jobs will not necessarily be lost to atomization but will incrementally change: engineers and skilled workers will have to be trained to match, for example, changes to the automotive sector's evolving needs.

To overcome these information barriers, cities need to map and align labor market needs with education and workforce development strategies; further the forecasting must be tested and ground-truthed by the experiences of the workforce in line with a human-centered approach as discussed further below.

Transatlantic cities need to develop local policies with the involvement of a wide range of stakeholders

Barcelona's White Paper on the Future of Work and Jobs

Barcelona's economic development agency, Barcelona Activa, has laid out a comprehensive analysis and interpretation of the future of work and jobs, including detailed insights and mapping of the competitive skills that will be in demand locally by 2033. The White Paper (http://www.barcelonactiva.cat/barcelonactiva/images/cat/Llibre-Blanc-CAT-Web_tcm101-49510.pdf) challenges local leaders to reflect on the common understanding of work, the imminent transformations affecting it, and how these affect the local economy and its workers. Next, it provides an outline and analysis of active labor market policies in the context of its reflections on the future of jobs and skills, and how local policymaking can positively impact and align workforce development, education systems, and active employment policies to allow for and improve social welfare in the context of the important changes affecting local work and jobs in a global economy. Overall, the White Paper offers a framework for reflection and action at the local level, challenging and encouraging policymakers to think more comprehensively and more broadly about work and jobs.

Based on the outcome of city-level analysis, cities will be able to use the information to identify key issues that need to be addressed and—importantly—involve the necessary range of relevant stakeholder groups (business, labor market, education, workforce development, housing, investment, public procurement) to be a part of the development of the full arsenal of policies needed to deliver inclusive growth. For cities to develop and invest in strategies, it is crucial to get buy-in from the relevant stakeholders and to ensure that those at the table reflect the diversity of the municipality.

The practice of participation and engagement of the stakeholder groups representing those affected by economic policy decisions should be sufficiently embedded to ensure it is not just symbolic but has an impact on policy. That said, a certain degree of flexibility needs to be present so that policy responses best reflect the different scales, areas, groups, and changing circumstances and contexts of the urban labor market. *Cities need to have buy-in at the highest level of city government, i.e. the highest levels of city government need to actively support such initiatives.*

Municipalities need to have the capacity to identify and ensure all the relevant voices (i.e. stakeholders) are represented and that these stakeholders are involved in the process.

Capacity is needed to ensure that partnerships are formed and that collaboration can take place throughout the economic development process. Collaboration is especially needed in an environment with restricted resources. But doing this is incredibly difficult. Collaborations are hard; they take a lot of time and the more inclusiveness is attempted, the harder it gets. City economic development strategies need to include ideas around how to collaborate and how to support those collaborations.

These crucial conversations are especially important in cities with an unstable economic environment. In these, the concern is often around addressing immediate needs—finding resources to ensure parks are mowed and garbage is picked up—the larger systemic conversations tend to fall to the back burner but are nevertheless as vital.

Transatlantic cities need to identify and use new standards, indicators, and frameworks to orient policy, measure progress, and change the narrative around economic development

A key component to this process is changing the narrative on how we define success in inclusive growth that navigates the changing nature of work. An essential part of this process is helping city stakeholders understand the macro-level dynamics (megatrends/policy framework) at play and the impact these are having at the city level (the data analysis phase is crucial to understanding the effects of these trends). On the other hand, it is important to listen to workers, aspiring workers and learners, employers, and educators, especially those whose experiences are fundamentally shaped by structural shifts in the economy, institutional racism and discrimination. The narrative of how we define success can start to change by defining new standards and indicators of success.

Based on the analysis of local and disaggregated data, local leaders can determine the core objectives of a city's economic development policy from a human-centered perspective. These core goals, once established, will be used to change the narrative. But establishing the goals requires having honest and difficult conversations around the legacies and realities of exclusion. Depending on the local contexts, these core goals and standards can take different shapes and have specific multilevel strategies according to the scale at which they are applied and for whom. In all these cases, it is more feasible and effective for these to be led at the local level, where these inequalities are evident and the symptoms more easily understood.

Several efforts have been made and are currently underway to find and use more suitable indicators to

The RSA's Citizens' Economic Council

In the United Kingdom, the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) conceived and developed the Citizen's Economic Council (https://www.thersa.org/globalassets/pdfs/reports/rsa-citizen-participation-and-the-economy.pdf) under the assumption that a new democratic approach to economics is not just possible, but necessary. The Citizens' Economic Council engaged 54 citizens and over 50 experts and policymakers to co-create a national charter for a citizen's economy, and involved citizens from across the country, particularly in areas most "left behind" by traditional economic policy. The experiment sought to explore and develop the reasoning for why more democratic and deliberative approaches to economies are important to help shape better and more informed economic decisions, as well as to promote transparency on economic priorities and strengthening the quality of democracy. There are many interesting outcomes and findings of this initiative, but one consistent theme that emerged that highlights the need, and increasingly so, of engaging citizens and stakeholders in economic policymaking is that there is a profound disconnect between those "left behind" and those who make policy decision, and that the economic inequality they experience and the lack of influence and trust they have in policymakers is resulting in frustration and discontent with the wider economic and political system, drawing a connection between an economy that excludes, and a political system that excludes.

Ghent's Policy Participation Unit and Neighborhood Managers

The city of Ghent in Belgium has a strong tradition of citizen engagement in local policymaking. This was given renewed impetus with the creation of the Policy Participation Unit in 2018. (http://urbact.eu/sites/default/files/media/refill_final_publication.pdf) This unit, which reports directly to the Mayor's Office, works to improve communication with citizens and to encourage new, innovative methods of participation. It is mostly made up of neighborhood managers, who support initiatives and ideas of the residents and act as intermediaries relaying information about concerns, perspectives, priorities, and plans. Overall, they serve to bridge the gap between the policymaking sphere and the lived experience of daily life in the city's different and diverse neighborhoods.economy that excludes, and a political system that excludes.

Table 1: Genuine progress indicator

Economic Indicators	Environmental Indicators	Social Indicators
Personal consumption expenditures	Cost of water pollution	Value of housework
Income inequality	Cost of air pollution	Cost of family changes
Adjusted personal consumption	Cost of noise pollution	Cost of crime
Services of consumer durables	Cost of net wetlands change	Cost of personal pollution abatement
Cost of consumer durables	Cost of net farmland change	Value of volunteer work
Cost of underemployment	Cost of net forest cover change	Cost of leisure time
	Cost of ozone depletion	Value of higher education
	Cost of non-renewable energy resource depletion	Services of highways and streets
		Cost of commuting
		Cost of motor vehicle crashes

Table 2: Four headline indicators of national success

Good Jobs	Wellbeing	Environment	Health
Percentage of the labor force that has a secure job paying what is considered a living wage	Average life satisfaction on a scale of 0 to 10	Rate of change in carbon emissions	Average life expectancy
Job satisfaction rates	Inequality in results of metric above according to race, ethnicity, gender, and neighborhood	Indicators of natural-resource use	Satisfaction with healthcare services available
Median income		Indicators of local air quality	Inequality in distribution of the metrics above according to race, ethnicity, gender, and neighborhood
Unemployment rate		Inequality in distribution of the metrics above according to race, ethnicity, gender, and neighborhood	
Inequality in distribution of the metrics above according to race, ethnicity, gender, and neighborhood.		Value of volunteer work	

guide and evaluate policies, as outlined and highlighted in the 2012 report published by Demos titled "Beyond GDP: New Measures for a New Economy." Widespread attention to this line of thought started in 2009 with the Commission on the Measurement of Economic Performance and Social Performance chaired by Nobel prize-winning economists Joseph Stiglitz and Amartya Sen. Shortly thereafter there seemed to be a growing call to move "beyond GDP", with the joint statement by German Chancellor Angela Merkel and the heads of the IMF, the World Bank, and the WTO, among others, that "traditional concepts of growth are inadequate" and should incorporate "social, employment, and environmental components."

The Genuine Progress Indicator (GPI) and the "Five Headline Indicators of National Success" published by the New Economics Foundation in 2015 are two attempts to redefine how we measure and evaluate success around economic development. Table 1 shows the indicators used to calculate GPI, which are being used in the states of Maryland and Vermont in the United States, and which have been applied to transatlantic cities such as a Baltimore and Burlington.

The New Economics Foundation (NEF) in the United Kingdom has also proposed a set of headline indicators listed below. Each has several metrics and proxies that can be used for statistical measurement.[4]

Good jobs: everyone should be able to find secure, stable employment that pays at least enough to provide a decent standard of living

Well-being: improving people's lives should be the ultimate goal of public policy, measured at headline level as average reported life satisfaction

Environment: current prosperity and that of future generations depends on a healthy environment. U.K. carbon emissions must not exceed the set limit in orrder to avoid dangerous climate change

Fairness: high levels of inequality, evidenced by a growing gap between the incomes of the top and bottom 10 percent of households, have been proven to have corrosive effects on society and economy.

Health: good quality healthcare and public health provision, measured by a reduced percentage of deaths considered avoidable, is a prerequisite for all other social and economic goals.

Thus far neither of these efforts have been used in a transformative way at the local level. The GPI, while being applied in certain U.S. states and cities, as a composite indicator does not have a clear or desired direction; rather it is conducive to seeking optimization by lowering cost and increasing benefits. Improvements according to this indicator would most likely not be linear.[5] So, while it is useful for comparative analysis, the GPI would need to be broken

4 Karen Jeffrey and Juliet Michaelson, "Five headline indicators of national success: A clearer picture of how the U.K. is performing," New Economics Foundation, October 2015.

5 Mairi-Jane V. Fox and Jon D. Erickson, "Genuine Economic Progress in the United States: A Fifty State Study and Comparative Assessment," *Ecological Economics* (147): 29-35, 2018.

Manchester

The city of Manchester in the United Kingdom was experiencing an urban revitalization when the 2008 global economic crisis hit. The government cut back on regeneration funding, forcing the city council to find a new approach to economic growth and social benefit. Manchester shifted from focusing almost solely on compliance with EU legislation, as well as cost and efficiency, to a broader focus on using procurement to fit in and help fulfill larger economic and social goals such as reducing unemployment and improving the quality of life for all residents. The city implemented policies and practices that delivered on this new approach. This included foregrounding these broader goals on all procurement documents, stimulating potential suppliers to think about how they could contribute to these outcomes through their economic activity. Next, the city took another step in this direction by including a 20 percent weighting on social value in procurement processes. The results of this new approach to procurement have been significant, with more money being spent on local and regional Manchester suppliers, creating jobs, salary increases, and improved skills for Manchester workers.

down into smaller pieces for it to be used in a policy context. Table 2 uses the NEF indicators and includes some of the more specific sub-indicators or metrics that could feasibly be measured at the local level. We have also removed the separate "Fairness" headline indicator and embedded a similar equity factor into all of the other indicators to ensure that the perspective of equity and inclusion is embedded in all aspects and thus conditions what is evaluated as progress.

The preceding recommendations tackled the process for more robust engagement for human-centered policy development, focusing on inserting empathy, strengthening local data and forecasting capacity, and reframing the understanding of economic development success. In addition, the taskforce explored a myriad policy levers related to the jobs and wages nexus that would align with the human-centered approach and understanding of inclusive economic development goals. The following section highlights key policy levers that are relevant for cities on both sides of the Atlantic.

Policy Levers

In determining what policies or levers could help move cities in this direction, taskforce members were asked to focus on concrete ideas that contribute to more inclusive economies by reducing existing inequalities in work and wages, empowering and engaging individuals, while being adaptive and/or resilient to current and futures changes in technology and the nature of work. They identified two main levers that can help advance better-quality jobs and higher pay: leveraging public finance and capital assets. Taskforce members stressed that inclusive economic development needs also to align with local labor market policies through such policy tools as instituting local living wage laws, policies to improve employment practices such as limiting the use of short-term contracts, supporting efforts of workers to unionize, and affordable housing requirements, to ensure that the benefits of this growth are not only inclusive but more equitably redistributed to residents.

None of these ideas are new (nor is leveraging public finance and capital assets the only policy lever at a city's disposal). Taskforce members have been working on these ideas, either directly or indirectly, for many years. But the key recommendation is that for these levers to act as more than just one-off approaches, they need to be linked to the policy process recommended above. It is bridging the two that makes for a comprehensive approach to building more equitable communities.

Preston

The city of Preston in the United Kingdom is a prime example of a post-industrial city's tragic socioeconomic decline and subsequent recovery through a focus on anchor institutions and local procurement. It partnered with education and healthcare providers, private businesses, housing providers, public services, and community stakeholders to reshape and refocus its local economic development policy. The city started by analyzing how and where it spent its money. It managed to change the culture of procurement officers and to encourage cooperation across local institutions and in the commercial sector to catalyze local economic development. Through this process, it managed to shift the spending of its six main anchor institutions, increasing the local spending in Preston by over £70 million and regional spending in Lancashire by £200 million between 2012–2013 and 2016–2017. The city's path to recovery is now serving as an inspiration on both sides of the Atlantic, earning the label of the "Preston Model."

Threading the needle: Using public finance and capital access and capital flows to create good jobs opportunities for all

One of the most direct policy levers that cities have and can use to lead the way toward a more inclusive economic development paradigm, is through public finance. Public finance—the use of tax funds, collected by the government, toward production and distribution of public goods—is an influential lever that can be employed strategically and with substantial impact. But doing this requires local leaders to rethink how they plan, allocate and utilize public finances.

To date political leaders have tended to follow a very traditional approach to deploying public finance for goods and services, one that assumes that the market will assist and that benefits will accrue automatically. But cities, such as Manchester and Preston in the United Kingdom, are leading the way, demonstrating that it is not necessary to follow this very traditional approach to deploying public finance for goods and services. But for transatlantic cities to create the conditions to enable alternative and more inclusive approaches to public finance and public service delivery, a planning process is needed that focuses on both the physical and social.

Public finance links to the focus of the taskforce and this report around the intersection of jobs, skills, and pay. Reductions in public-service provision due to underfunding and austerity have led to challenges for many of the lowest-paid workers, as well as for the broader community receiving services. Linkages between the public and commercial sectors through procurement and political economy have not always enabled investment in skills and local communities.

How can leveraging public finances address stagnant wages and precarious work while boosting urban economic growth in an inclusive way? The taskforce outlined two areas associated with public finances and how these can be used to create good jobs. The areas are relevant from both a U.S. and European perspective, with the suggestions fitting within existing legal frameworks and policy mechanisms.

Area 1—Public procurement creates good jobs

Transatlantic cities can build on their assets such as educational institutions, industry clusters, and civic leadership to boost their overall productivity and growth. One way to do this is through public procurement, i.e., the process of buying goods, services, and works. Cities utilize procurement to purchase a range of items, including everything from stationery to health services to construction projects. Across Europe, public procurement accounts for around 14 percent of GDP, with an annual spend of over €2 trillion.[6] However, public procurement is often not undertaken in a strategic way—primary contracting decisions have largely been driven by cost and efficiency, with the cheapest provider winning. This approach to procurement does not consider sufficiently the quality of the good or services provided or the extent to which procurement can be used to address other issues.

Driven by new legislation, public procurement in Europe has slowly started to become more progressive, with social and environmental considerations becoming part of the decision-making criteria. Such approaches are however far from the norm. Public procurement can, however, be used to create good jobs, to reduce carbon emissions, to enhance skills levels, and to improve relationships between the commercial and social economies.

Looking at jobs, skills and pay in developing inclusive metropolitan economies, there are six stages of the procurement cycle at which these themes or outcomes could be considered and embedded (see Appendix C for details). This makes procurement a key tool in advancing an inclusive economic development agenda. The stages are:

- Understand where existing spending of public money goes and its existing impact.
- Identify outcomes for procurement to address.
- Link outcomes to the design of goods and services.
- Ask questions around wider outcomes.
- Evaluate wider outcomes.
- Monitor the achievement of wider outcomes in delivery.

Area 2—Taxation creates and maintains good jobs through setting community standards

The powers to raise and spend tax revenue at the local level vary significantly between the United States and Europe. In the United States, state and local governments have the power to raise income through service taxation and then spend proportions of it on

6 Lucian Cernat and Zornitsa Kutlina-Dimitrova, "International Public Procurement: From Scant Facts to Hard Data," European Commission, DG Trade, April 2015.

economic and community development programs and activities. The income generated from has often been used in recent years to support the development of major projects such as sports stadiums. In Europe, there is a wide scope of differentiated local competences across countries. Some countries, such as the United Kingdom and France, are more centralized, with central government responsible for collecting such revenue and deciding how it is spent.

Even in the United States, where cities and states have more control over the spending of taxation revenue, the approach has become largely one-dimensional. Cities have focused on large flagship developments, either by subsidizing the building of major projects or luring businesses to locate their operations within city limits. While the allocation of fiscal resources to these types of projects could perhaps be done in a way that is strongly aligned to the interests of the local residents and inclusive, these rarely offer any transparent justification in terms of return on investment in any metric.

Community Benefit Agreement for Job Quality and Access in Milwaukee, Wisconsin

(https://www.huduser.gov/portal/pdredge/pdr_edge_inpractice_072012.html)

The Good Jobs and Liveable Neighborhoods Coalition in Milwaukee, Wisconsin, which includes 27 community-based organizations that seek to improve the economic conditions in the city, reached a community benefits agreement (CBA) to ensure that development practices in the downtown Park East Corridor are equitable and that residents share in the benefits of the redevelopment. In this case, the CBA includes provisions for the sale of land based on equitable job creation, affordable housing minimums, contracting of businesses designated as disadvantaged business enterprises/minority business enterprises, the provision of apprenticeship and training opportunities for low-income and low-skilled residents, and encouraging living wages.

Therefore, the use of public funds needs to change in two main ways in order to enable good jobs to be created and maintained.

First, where major infrastructure development (such as stadiums) is a core component of public finance, it needs to be undertaken in a far more inclusive, socially responsible and longer-term manner.

One method is the use of community benefit agreements (CBA). CBAs are legally binding covenants made between developers or government bodies and community groups that require development on specified lands to meet outlined thresholds for living wage standards, local hiring policies, affordable housing, and sustainable development practices. Cities have various finance tools at their disposal to attract development. These include economic development finance and incentives—discretionary funding that they can use to support specific projects (i.e. tax increment financing, payment in lieu of taxes, grants, and cash subsidies) and that should result in a tangible economic benefit. Other such financing tool includes city-owned land disposition, where cities write down the value of land and transfer it to developers to enable development finance to proceed. Often the benefit of doing this is only measured in terms of having the development proceed, rather than including other benefits that could contribute to an equity agenda. Land use entitlements are another tool where, in some cities, developers seek property additional entitlements that are always approved by a public body—usually a zoning or planning commission. In exchange for the additional entitlements (building taller, denser, etc), they have to offer certain public benefits.

These community benefit agreements are most always negotiated on a case-by-case basis and have very little resonance with a cohesive policy agenda. They are almost always loosely interpreted and almost never seriously tracked. There is an opportunity to more narrowly define the specific benefits that a city would want to see—jobs at union wages, for example. Therefore, this should be a part of the process outlined above to ensure more substantive public benefit.

Second, cities need to diversity their approaches to spending public money, so that there is a wider range of beneficiaries and the wider labor market is considered.

While we are largely talking about the United States here, the same principles apply to Europe and include the following five steps (see Appendix D for details):

- Develop strategies to utilize public finance.
- Apply procurement steps to infrastructure development.
- Manage infrastructure.
- Realize public finance strategy.
- Monitor change.

Public finances make up a significant amount of GDP in Europe and the United States. They are also responsible for directly and indirectly employing millions of workers. Transatlantic cities can more intentionally leverage the capital assets in their control to support the creation and maintenance of better-quality jobs and wages. But to ensure quality employment is an outcome, key employment standards need to be in place through the use of policy tools, such as local living wage laws, improving employment practices, supporting efforts of workers to unionize, and affordable housing requirements. These policy tools are critical to ensuring that a city's growth is shared by all its residents.

The first taskforce meeting reviewed the current knowledge about the consequences of the rise of precarious work and wage stagnation for individuals, and how this affects transatlantic communities and cities. It was designed to explore what key principles, values and components an inclusive urban economic development system should comprise; to better understand the macroeconomic link between productivity, skills and wages, and what drives persistent wage gaps; and to discuss more broadly what systems change that fosters more just and inclusive economic development at the urban level should look like.[7]

The second meeting in Cleveland built on the first. It offered an opportunity for participants to think specifically about what mechanisms (i.e. policies, tools and/or models) are at the disposal of cities and how these can be leveraged to advance systems change. A key component of this discussion was identifying best local practice and/or policy options that cities currently use and assessing replicability from a transatlantic perspective. It was important to always take into consideration the constraints and challenges with governance, regulation and capacity—three key markers of difference between U.S. and European cities' ability or inability to apply a set of policy or practice recommendations.

7 The Brookings Institution's Metro Monitor uses the following indicators to measure inclusive growth in U.S. metros. Growth indicators: change in gross metropolitan product (GMP); change in the number of jobs; change in the number of jobs at young firms. Prosperity: change in productivity; change in the average annual wage; change in the standard of living. Inclusion: change in the median wage; change in the relative income poverty rate; change in the employment rate.

MOVING FROM THOUGHT TO ACTION

The objective of this report is to raise awareness of the effects labor market change has had on the quality of work and wages, and to start to connect these broad structural changes with city policy challenges and tools. The type and quality of work and wages is an outcome of how growth is generated (and shared) through economic development—and it is the critical link between economic development and labor market policy. Making the argument that urban economic development needs to be human-centered is in line with other calls by policymakers who recognize the need to put "people first" or "people at the center" of policymaking. The economic and social costs are too great to overlook if we do not put "people first".

While labor market policy and economic development are two separate policy areas, they naturally intersect. The labor market is in a constant state of change. The purpose of this report (and the justification for bringing the taskforce together) was to outline and understand the nature, drivers and outcomes of labor market change from a transatlantic perspective. The effects of macro-level changes are felt at the local level and it is cities that must manage the positive and negative effects of labor market change as this intersects with a multitude of issues, but especially economic development. Thus, building inclusive and equitable local economies must take into consideration the distribution of wages and the quality of work available to all residents.

To achieve a more human-centered approach to urban economic development, the taskforce decided that a process first needs to be in place at the city level to access the strengths and weaknesses of the urban economy. This process is also critical to making local leaders and the relevant stakeholders aware of what happens when the broader local context is not adequality understood or taken into consideration. Once the local context is understood, city leaders can adequately apply the policy tools and leverage the public finance and capital assets as a means to building more inclusive and equitable development. This is not easy, nor a simple or quick fix. It takes time, capital, and capacity. But there is precedent as made evident through the examples cited here.

The final component of this process is the call for more peer learning among transatlantic cities on what it means to employ a human-centered policy planning process to urban economic development. This is where GMF's Urban and Regional Policy Program intends to take the thought and move it to action. The idea is to move from though to action by bringing this process to transatlantic cities that are open to learning more about what inclusivity and equity means in urban economic development and what role labor market policy plays in this process. Finally, taskforce members were clear that, in order to know whether what is happening on the ground is working, more research is needed into what it means to employ a human-centered policy planning process and to see if such a process results in the intended outcomes—better-quality work and wages.

Appendix A. Taskforce Members

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Appendix B. Taskforce Meetings

The first taskforce meeting reviewed the current knowledge about the consequences of the rise of precarious work and wage stagnation for individuals, and how this affects transatlantic communities and cities. It was designed to explore what key principles, values and components an inclusive urban economic development system should comprise; to better understand the macroeconomic link between productivity, skills and wages, and what drives persistent wage gaps; and to discuss more broadly what systems change that fosters more just and inclusive economic development at the urban level should look like.[1]

The second meeting in Cleveland built on the first. It offered an opportunity for participants to think specifically about what mechanisms (i.e. policies, tools and/or models) are at the disposal of cities and how these can be leveraged to advance systems change. A key component of this discussion was identifying best local practice and/or policy options that cities currently use and assessing replicability from a transatlantic perspective. It was important to always take into consideration the constraints and challenges with governance, regulation and capacity—three key markers of difference between U.S. and European cities' ability or inability to apply a set of policy or practice recommendations.

1 The Brookings Institution's Metro Monitor uses the following indicators to measure inclusive growth in U.S. metros. Growth indicators: change in gross metropolitan product (GMP); change in the number of jobs; change in the number of jobs at young firms. Prosperity: change in productivity; change in the average annual wage; change in the standard of living. Inclusion: change in the median wage; change in the relative income poverty rate; change in the employment rate.

Appendix C. Using Public Procurement to Create Good Jobs

Stage 1—understand where existing spending goes and its existing impact

Cities need to understand how their procurement processes are undertaken and where their procurement spend goes—they effectively need a baseline position of where spend goes geographically, in sectoral terms, and by organization type (e.g., small and medium-sized enterprises). Without this understanding, cities do not know where there is scope to shift and amend process and practice to deliver enhanced impact. They also need to understand the extent to which suppliers contribute toward desired outcomes. If a city has an aspiration to create more and better jobs or reduce inequalities, what is the current position of the supply chain in relation to these outcomes?

Stage 2—identify outcomes for procurement to address

Cities need to understand which issues they want procurement to contribute toward addressing. They effectively need an outcomes framework that details outcomes such as addressing unemployment, improving skills, and supporting the voluntary and community sector. There then needs to be political and strategic support to enable those outcomes to be built into procurement strategy and associated tender exercises. If a city wants suppliers to improve the skills of their workforces through procurement, this needs to be a core outcome within any outcomes framework and procurement strategy.

Stage 3—link outcomes to the design of goods and services

When designing goods and services (commissioning), cities need to think about which wider outcomes they can contribute toward. This needs to happen long before a tender exercise. For example, when a new waste service is being devised, those designing it need to think about whether new job opportunities or apprenticeships can be created as part of it. They also need to decide what percentage of the procurement decision will be weighted to those wider outcomes. If a city wants to create more jobs through procurement, this needs to be discussed and detailed as part of commissioning and developing specifications.

Stage 4—ask questions around wider outcomes

Cities need to embed questions around wider outcomes into tender documents. They need to be asking potential suppliers how many new jobs they will create, what types of support they will provide for the voluntary and community sector, or whether they have an environmental management strategy? This encourages suppliers to demonstrate in the tender process how they will contribute to achieving such outcomes. If cities want to use procurement as a way of improving skills, they need to ask suppliers how they will do so and how they will engage with providers development programs for such skills.

Stage 5—evaluate wider outcomes

Cities need to score tender responses in relation to the responses to questions around wider outcomes. There are three ways of doing this—quantitative, i.e. on the number of jobs a supplier will create; qualitative, i.e. on the types of support a supplier will provide to the voluntary and community sector; or pass/fail, i.e. on whether they have an environmental management strategy or not. This should complement evaluation criteria around price and quality.

Stage 6—monitor the achievement of wider outcomes in delivery

Cities need to embed the outcomes that suppliers propose to deliver into the terms of the contract. Monitoring impact should be a consideration in each of the above components of the procurement process. They should think about how they are going to measure the contribution suppliers make to the wider outcomes detailed in any outcomes framework. There are two main ways of monitoring impact. One is through reviewing how levels of spend have increased in a local economy through spend analysis and through undertaking surveys with a sample of suppliers around particular outcomes. The other is to monitor the delivery of wider outcomes on a monthly, six-monthly, or annual basis. If cities are looking to achieve outcomes around jobs, wages, and skills, they need to monitor supplier performance against those outcomes.

Appendix D. Using Taxation to Create and Maintain Good Jobs Through Setting Community Standards

Step 1—develop strategies to utilize public finance. Cities need to develop more progressive strategies and approaches for the redistribution of taxation. They effectively need strategies that outline how they are going to spend revenue through projects and activities, the principles surrounding such redistribution, and the means through which those principles will flow to the organizations with responsibility for realizing such projects and activities. Such strategies should be co-produced with taxpayers to ensure ownership of the projects and activities. Where the creation of good jobs is a core focus, this should be embedded as an overarching objective of the redistribution strategy so that it flows from policy into practice.

Step 2—applying procurement steps to infrastructure development. Where cities adopt an approach to redistribution that involves the development of infrastructure (or developments such as stadiums), they need to apply the approach to procurement and project delivery. This means being clear at the outset of the development as to what wider outcomes need to be contributed toward; for example, the creation of good jobs. Potential contractors need to outline how they will contribute to those outcomes during delivery. Finally, contractors also need to be held to account on the delivery of such wider outcomes during the project. If the emphasis is on good jobs, then contractors need to be able to provide sustainable, well-paid jobs, with opportunities for development.

Step 3—managing infrastructure. Once a development is completed, its management and maintenance are often contracted out to providers outside the city or region. Wealth is therefore moved out, and the employees associated with the delivery of such activity have challenges in terms of pay and opportunities for progression. Given that infrastructure is developed through the redistribution of taxation generated by local residents, its management and maintenance should be procured locally. Cities therefore should think about the development of worker-owned models for management and maintenance tasks to ensure quality local jobs.

Step 4—realize redistribution strategy. The development of redistribution strategies should give cities the opportunity to diversify the activities they undertake around economic and community development. The fourth step of a new approach to using taxation to create good jobs is therefore to deliver projects, to be determined by cities, such as employment brokerage projects to move people into employment, the development of local or regional living-wage campaigns, or the development of skills programs for particular sectors of the economy.

Step 5—monitor change. Cities need to develop measurement tools to demonstrate the wider impact of their redistribution strategies and activities. If the emphasis is on creating good jobs, the measurement framework needs to explore how redistribution has contributed toward greater job stability and security as well as better pay and terms and conditions, and ultimately how it has changed the lives of those benefiting from such activities. There needs to be a constant cycle of evaluation of progress and change.

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