

Center for Strategic and International Studies

“Economic Impacts of Globalization and Technological Disruption”

Keynote Address by Senator Mark Warner (D-VA)

**Introduction:
John J. Hamre,
President and CEO,
CSIS**

**Speaker:
Senator Mark Warner (D-VA)**

Location: CSIS Headquarters, Washington, D.C.

**Time: 9:00 a.m. EDT
Date: Friday, April 20, 2018**

JOHN J. HAMRE: Good morning. Thank you all for coming. Thank you for being here. We've got a few people still coming in who went out to get their coffee.

I think – first of all, I want to say thank you to all of you. I'm glad that you're here. I think that the size of the audience reflects a bit the nature of the problem. I can't think of a more serious issue right now that America should be talking about than this – the shorthand is the future of work. It doesn't have the traction as an issue it ought to have. I admire Denmark for the foresight to go out and do something structurally to deal with this problem. It's really impressive what you're doing. We're – I can only find one political leader in America that is taking it seriously, and that is Senator Warner.

We were just talking about it. We know with certainty – yeah, I don't know if it's going to be five years from now or 10 years from now – but with one out of five Americans making a living off of driving something, they're going to lose their jobs at some point. Now, how fast, I don't know. But do we have an opportunity to get in front of a problem? Most of the time react after it's too late. You know, this is one of those rare cases where we have an opportunity to get in front of a problem before it becomes a crisis.

You know, when Franklin Delano Roosevelt was elected, it was – it was about redefining American capitalism to save it as a model for governance because there were two competing ideologies in the world at that time – national socialism, with the rise of the fascists in Europe, and international communism. And they had the energy and they had the answers. And American capitalism was on its butt because of the recession. Now, we're coming back now, but I would not say that we are energetic about our future. As a matter of fact, we're kind of ambivalent about our future. We can't get traction about our future.

And so fortunately we do have one leader in America right now that is focusing on this, putting his personal energies behind it, devotes – he's got a lot of other things he's having to do every day, too, because, as you know, he's the ranking member of the Intelligence Committee. And so the entire investigation that's underway is on his lap. But he continues to devote energy to this topic. We're the ones that are failing, because we're not generating the audience participation to get this – some traction in America about this need.

So we're here to listen to you, Senator. I'm delighted that you're willing to share your time with us today. And then we're going to have – Stephanie is going to lead a kind of a dialogue, bringing all of you into the conversation through question and answer. So please welcome Senator Mark Warner and thank him for coming to meet with us. (Applause.)

SENATOR MARK WARNER (D-VA): Well, thank you, John. Thank you for that introduction. Thank you for your support and for your years and years of public service in so many ways. And leadership here at CSIS is really tremendous.

I just had a chance to meet the Danish Finance Minister, Mr. Jensen. Thank you for the support of this program. And in many ways, this is obviously not just an American problem. This is a worldwide problem. And, candidly, while this is not politically correct for an American politician to ever acknowledge any other country doing things slightly better in a space – (laughter) – but I think Denmark is ahead of us in both understanding this problem, understanding what a social contract ought to look like in the 21st century. And I thank you for your willingness to be here and support this initiative.

I also want to acknowledge for those of you who've already sat through the first panel, you may hear some repetition from Bruce Reed and I, because we have also been working together on this issue for the last, boy, three and a half years. And as John mentioned, I think, you know, this is one of those problems – this is one of those issues everyone from right to left along the political spectrum will acknowledge it's coming. Everyone from right to left will acknowledge, no matter what we do specifically on trade, globalization is going to continue. Everyone from right to left acknowledges we're going to have massive technological change. Everyone from right to left acknowledges, oh my gosh, are we prepared for this?

And I think the resounding answer is no. And I would actually argue that our – both of our political parties are firmly caught in the 20th century. Both of our political parties are approaching this issue with a backwards look. I would argue that my party, the Democratic Party, thinks about most of this from the problem of redistribution and income inequality, both terribly important. So government should redistribute wealth. And then there's enormous income inequality and government need to bridge that. And some of that solution is right. The Republican Party is saying this is just a problem of markets will actually fix this. And if we could just energize individuals to work a little bit harder – and, you know, there may be certain things in our markets that still, I think, need to be re-incentivized to get this right.

But both of the parties are, in many ways, backwards looking. One towards the 1930s, '40s, solution. Maybe one – I'm not sure – and I say this – I know CSIS is a bipartisan/nonpartisan entity. So I'm going to make my editorial comment here. I'm not sure really what the Republican Party is now. But I would say the Trump party, you know, has a backwards look that is looking at, you know, a mythological age of when it was a great life for white guys in the '50s and '60s, and maybe into the '70s. But I'm not sure, again, that's where our future is headed.

As John mentioned, you know, there is – you can end up with a pretty dark spot here if you go to where the logical conclusion. John made mention of the fact of if we move to automation and driverless vehicles, we eliminate, you know, a large, large percentage of jobs. A stat I always like to use is that it is – driving, in all shapes and forms, the single largest employment item in America for men. And the notion of driving for a job is going to rapidly disappear at some point. So we can get to the point in a pretty dark area fairly quickly about whether the robots are going to take over everything.

I know in our last panel – and I think she may have had to step out – but Susan Lund from McKinsey, I think there is – she did, I think – and McKinsey did some of the best work that said: By 2030, we're not going to have this disappearance of all the jobs. But maybe the good news, there still will be work. But the challenge for all of us as policymakers and business leaders is the notion and nature of that work, for at least 30 percent of the workforce – and I frankly think that's low in terms of OECD nations, first-world nations – the nature of work of 30 percent of the existing jobs are going to fundamentally have to transform themselves. And I'm not sure any of our systems are really equipped for that.

So the question I would argue with is, where do we – where do we start? And I would start with the notion that the issues that we're going to face on a going-forward basis are less built upon the traditional ideological framework for liberal versus conservative or left versus right or, for God's sake, in our country, red versus blue. Instead, the question is going to be which political party or which group of policy makers are going to be forward leaning, versus those who are going to be backwards leaning. And this is a future versus past conundrum. And there is an opportunity I think, in a time

when – where I work on my day job we are caught up in enormous, you know, gridlock – there is an opportunity, if we get this right, to forge a whole set of new alliances that might lead to breaking some of the political gridlock.

So I want to talk about two things before we go to the question and answer period. The first is, if the notion and the nature of work is changing, how is that changing? And what does that do to our traditional social contract? The social contract that grew up in Western Europe and in America in the '30s and '40s for the most part, in the aftermath of massive industrialization and post-World War I, and post-Depression, at least in our country – different I think than in Denmark in many ways – but in America it was a collaboration between business, government, and labor.

And the notion was once you went to work, once you became a full-time employee, that with that full-time employment came certain expectations. If you worked full time, long term, chances were that your company was going to provide you health care and retirement. And then there was going to be a series of a social safety net that would be provided by the government. That would be unemployment, workman's comp, disability, oftentimes regulated by the – by the state government not the federal government in our country. I know in Denmark and elsewhere, most of those obligations lie with the state. It was almost only in America where it was those benefits only came about if you received, what, full-time employment, a W-2 employee.

And for 80 years that actually worked pretty well. You know, my dad was a Marine in World War II, got out of the war, came back, worked a couple of jobs, and then went to work for a single company and worked for that company for 40 years. He never got that high in the hierarchy, never made a lot of money, but there was a level of economic security that came with that job. And there was a recognition that with the job came health care, retirement. And if he were somehow to lose this job, there would be something that would catch him in terms of benefits.

But that notion is changing. It's been changing not just in the last few years with the rise of the platform companies, but it really has been changing over the last 30 years. We've gone from, you know, as we move into the Baby Boomer generation, people have started to move from more jobs. We've moved from defined benefits to 401(k)s. We've seen a slight shifting more back to the individual. But a lot of this has really accelerated. And, boy oh boy, has it accelerated as the Millennials – 83 million strong, including my three daughters – come rushing into the workforce, and where they will be, in a short period of time, the majority of the American workforce.

And if you ask most Millennials, the question is not where do you work, the question is more often what are you working on? And usually the response is not I want to go do X for my whole career, but I'm driving Uber, I'm working on a startup company, I'm doing a little IT consulting on the side. And they are cobbling together a set of revenue streams, you know, to make a living. And the good news with that is that there is a certain amount of a flexibility with it. The bad news with that equation is you may be doing fine until you're not, and when you're not doing fine all of the traditional programs that we set up for the 20th century social contract are not there for you. So if you are a gig worker, if you are an independent contractor, if you are part-time, if you are an entrepreneur, you may be making plenty of money, but there are no benefits that go along with that.

So how do we think about a social contract that would actually change that? I believe that the truth is, and this should not end up devolving to some kind of 20th century labor classification battle, I think we need to move past that debate and acknowledge that chances are in this changing world, both by economic necessity and by choice of the workforce, we're not going to go back to a world where

virtually anyone works for the same job for 30-plus years. So how do we create a new social contract that would meet where the economy's at today, and the fact that already in America – today, in 2018, a third of the workforce is already in this form of some level of contingent worker, non-fulltime. And that third of the workforce will go to over 50 percent of the workforce by 2025. Again, good news would be they be doing fine. The bad news is there's going to be no social safety net.

So I would argue, and we have – from the Aspen Institute effort have been arguing – that we need to create a system of portable benefits. You know, in many ways, for all the flaws of Obamacare, that was the first move towards making health care more portable than our existing system. And what that portable benefits system looks like I think time will tell. Chances are, it will not all be run by the federal government. Chances are, you know, it will be administered in many ways on your device, and it may have an enormous role for fintech or for nongovernmental entities. But it should include some ability to set aside some resources as a buffer from that first job you get at 16 or 18 and that that benefit pool would accommodate and travel with you as you move from job to job throughout your whole career.

Because I would argue, particularly for folks in my political party, that while income inequality is a huge problem and needs to be addressed, that a problem of almost equal magnitude is income insecurity, because in this changing world people that – even with their – even when their income tax return may show that they've made a decent salary, chances are they've built up no kind of – no kind of reserves. And as the Federal Reserve study recently showed, 47 percent of Americans could not absorb an unexpected \$400 expense without going into hock. Now, that level of insecurity breeds not just personal insecurity, but it also breeds political insecurity because you're pretty angry if you're working your tail off and then something happens and you can't get your kid health care, you know, you have no reserves, there is no benefit program to pick you up.

So we need a new portable benefits system. And we've made some progress. We've got a bipartisan legislation that would create at least a \$20 million-\$25 million grant program out of the Department of Labor. We've seen in Washington state efforts to create a portable benefits system. We've seen the SEIU and Uber work together on some ideas. We've seen, you know, to a degree, at least for driving, we've seen the Black Car Fund in New York exists as a – as a – in fact, as a disability fund for some time for independent contractors. But we need to do much more.

Now, if you accept the fact that people are not going to work for the same job for 30 years and that we need a portable benefit system, the corollary to that is that it also changes the nature of what we – where responsibility lies and what we should expect from the public sector and the private sector as we move into how to make sure that workers actually have the skills they need to compete in this changing economy. If we go back to the McKinsey report that says 30 percent of all jobs – and I think, again, that's low – will fundamentally change the nature of their skill requirements between now and 2030, and that over 50 percent of the workforce will not be in permanent work, then it is not illogical in our current economic system that businesses no longer invest in any meaningful way in workforce training and skilling.

Well, the dirty little secret is that – and I say this as somebody who's been in business longer than they've been in politics, what isn't fully recognized is that businesses, while it continually wants extraordinarily low tax rates and a tax cut bill that took place in December, you get those rates, but they've not been willing to accept any additional responsibility for the workforce. And matter of fact, on any kind of historical trends, the amount of investment in workforce skilling and training is on a solid slope down. In effect, business has tried to push more and more of that responsibility back upon

the state. And, you know, it's a rational business decision, particularly for low- and middle-income jobs. Those are the jobs that are most subject to technological change, globalization, or pure elimination.

So how do we rethink the notion of workforce training? I would argue that we don't even have the right accounting systems. You know, a number of studies have shown that most nation-states – 70 percent of most first-world nation-states' assets are their human capital. Yet, at least in our American accounting system, if you look at the balance sheet of any Fortune 100 company, there is no line item for human capital. We've had a tax code that for years has promoted investment in intellectual capital and actual hard, physical goods. And we actually have R&D tax credits. We have an accounting system that allows you, when you buy that computer, to count it as an asset and depreciate it, hold it on your balance sheet. If you spend those same dollars training up or skilling up an individual throughout their career, that's not an asset. That's a cost. It's a liability. And we need to fundamentally change our whole thinking.

So we've put in place – at least from a legislative standpoint – a – taking the model of the very successful R&D tax credit and trying to create a human capital R&D tax credit, so that a company would not get a deduction but they would actually get a credit for upskilling any individual. And the delivery system could be through a community college or elsewhere. But upskilling in a significant way. In a world of certifications this should be able to done, give you that tax credit, if the person below a cut line of, say, \$80,000 of income receives an additional skill.

And of the many challenges, I think, that we faced, and one of the biggest disappoints I had in the tax reform effort was, boy oh boy, did we ever blow an opportunity. I'm a business guy. I want to make sure that we're competitive with Denmark. I want to make sure we're competitive around the world. I'm all for bringing down corporate rates from where we were at the high end. But that deal should have been made with American business was if we're going to bring down rates to be more competitive, you have to be willing to – actually be willing to upskill and train up people in your workforce. And we'll give you a tax incentive to do that. But we missed that opportunity.

We missed the opportunity as well to say for those companies who've got offshore profits, we'll be happy to allow you to repatriate those profits and bring them back at a low rate. But the deal needs to be, you need to make some of those profits back and reinvest in communities that have been hard-hit by trade. Huge, huge missed opportunities in a bill that at the end of the day I think is going to simply, you know, provide a short-term spurt of growth, but historically doing – using borrowed money at the end of an economic cycle to goose an economy that was already almost at full employment, does not historically provide long-term value creation.

Final point I want to make is this, is that if we're going to rethink how we invest in human capital, if we're going to rethink how we deal with – deal with the notion of a social contract and portable benefits, I almost think we're going to have to step back and, at its core, question: How can we make – and let me say to preface, as somebody who's been blessed to do very well by the American economic system, I failed a couple times then managed to do well in business – you know, I believe in our free enterprise system. But I would argue that modern American capitalism is not working for enough people. And instead of making radical transformations on either the left or the right, I think there are ways that we can slightly shift incentives to make it work for more folks.

Investment in human capital, a new social safety net. And I believe also changing some of the incentives. John and I were talking before we came in. You know, the capitalism – post-World War II

capitalism in America, from the late '40s to the mid '80s, built the country's strongest economy and build the world's largest middle class. But in many ways, that capitalism was built on long-term value creation. Starting in the late '80s, early '90s, we've shifted too often, and with the ability – and I say, again, technology was both an adder and a detractor on this – with the ability to move capital with the flick of a keystroke, we've shifted so much of our attention towards short-term, quarterly profits over long-term value creation.

And frankly, everything in our tax code, everything in our SEC system, everything in the public markets reinforces short termism over long termism. And again, from tax code changes to different reporting cycles for public companies, there are ways within a free enterprise system that we can shift some of the emphasis just slightly back towards companies and enterprises that will invest in infrastructure, that will invest in R&D, that will invest in human capital, because if we don't this level of income insecurity and job insecurity combined will create more and more political distance. We will have more and more Americans that will not only get frustrated with the Republicans and the Democrats but will frankly be frustrated with the overall effectiveness of our underlying economic system.

And history has shown that countries that get to that point in their development, not very good things happen. So what I would urge – and back to where John started these comments – we do need to make this – and I'm wide – Carolina (sp), who works with me, and some of the folks from Aspen who are here – you know, I'm wide open for correction on how we turn this into a political agenda. But, boy oh boy, wouldn't the next political debate – the presidential debate, if it was actually focusing on the future of work, if it was actually focusing on what a 21st century social contract was looking at, if it was actually focusing on Capitalism 2.0 or investment in that 70 percent of our country's assets that's human capital? Wouldn't that be a lot more interesting than what passes for political debate right now?

So my challenge to all of you is help us figure out a way to do this in a more potentially understandable way. And let's grow this audience from this room to a standing room only, where both political parties – and whichever political party gets there first – and I think this same challenge will be in Denmark and elsewhere – in America, at least, the political party who usually seizes the day – and I would argue Democrats have been slightly more successful at this than Republicans historically, but the challenge will be going forward – is that party that's forward-leaning, that party that's optimistic, that party that would reinforce what is the unique American secret sauce, which is I think that everybody ought to have a fair shot to have an opportunity to earn a good life. Not be given, but to earn a good life.

And getting this question around future of work and future of capitalism, getting the answer to that I think will be the key to who solves that problem for the 21st century. So thank you very much, CSIS. I look forward to our conversation now. Thank you. (Applause.)

(END)