INTRODUCTION

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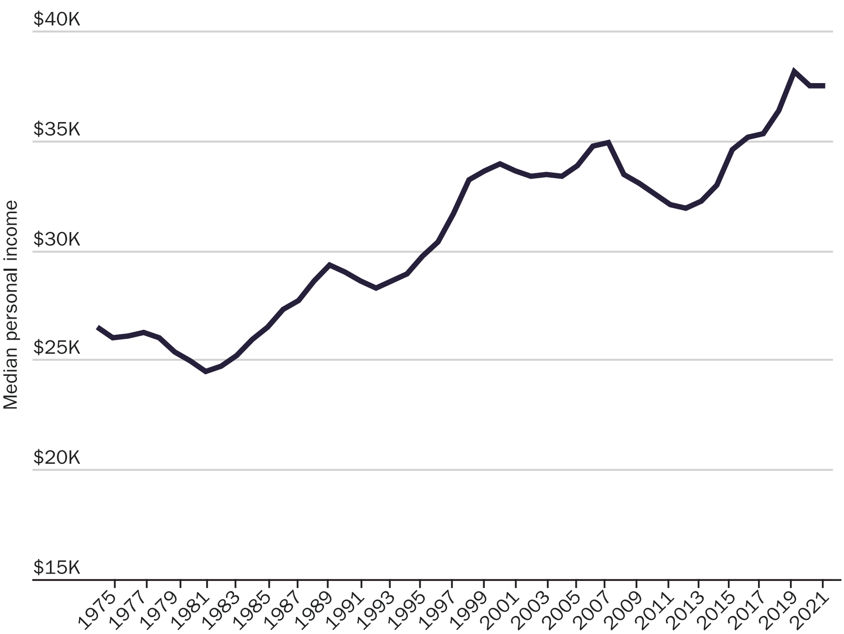
Since the 2016 presidential election, politicians have become enamored with policies intended to help the American worker. President Donald Trump issued a 2020 "Pledge to America's Workers" in which he heralded past executive actions, such as those creating the American Workforce Policy Advisory Board and the National Council for the American Worker.[1] President Biden has since embraced similar rhetoric and policies, such as his "worker centric" trade policy and an infrastructure law with "Buy America" rules that "create[ ] jobs for American workers."[2] And almost everywhere you go in Washington these days, you find a politician, bureaucrat, or wonk lamenting the supposed plight of today's American worker and promising to fix it.

In some ways, this plight has been oversold. For example, inflation-adjusted median personal income in the United States increased by 61 percent between 1984 and 2019 (see Figure 1), while nonmanagement wages grew substantially as well.[3] According to the most recent calculations from economist Michael Strain, real wages increased between 1990 and 2022 by 50, 48, 38, and 39 percent at the 10th, 20th, 30th, and 50th (median) percentiles, respectively.[4]

FIGURE 1 Inflation-adjusted U.S. incomes have increased substantially since the 1980s



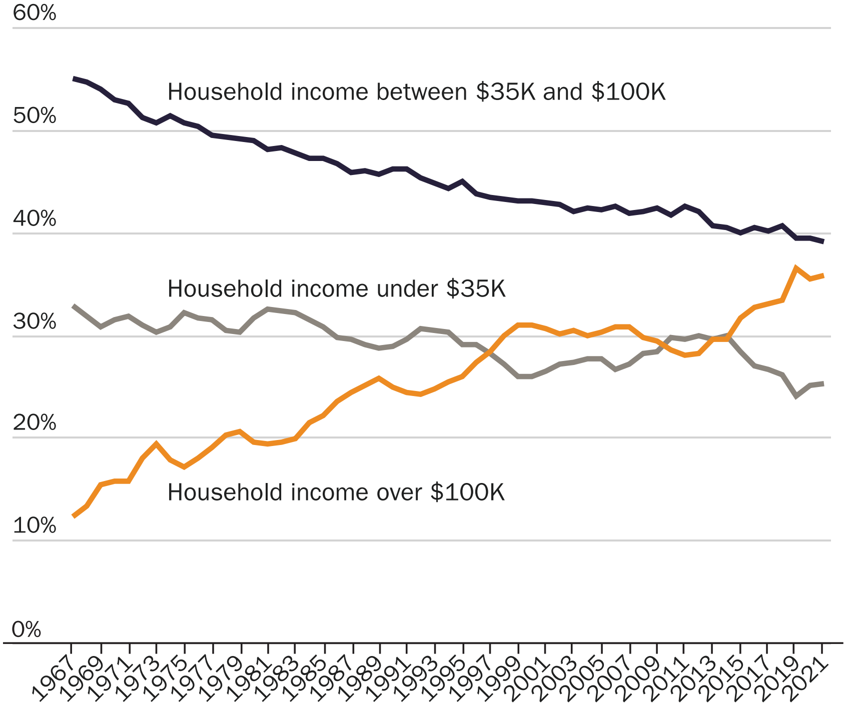
Source: "Real Median Personal Income in the United States," Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, September 13, 2022.
Note: In 2021 dollars.

Meanwhile, recent economic analyses show that the supposed "hollowing out" of the middle class has occurred not because workers are falling into lower wage brackets but because they're generally moving up the income ladder (see Figure 2).[5]

The percentage of two-earner households in the United States also has barely budged over the last several decades and has actually declined a bit for American families since 1990 (see Figure 3)—contrary to the common narrative that an increasing number of working families have fallen into the "two earner trap."[6]

In 2022, in fact, economists have been far more worried about the labor market being too hot—as indicated by record-setting job openings, the "great resignation," and quickly rising private sector wages—than too cold.[7]

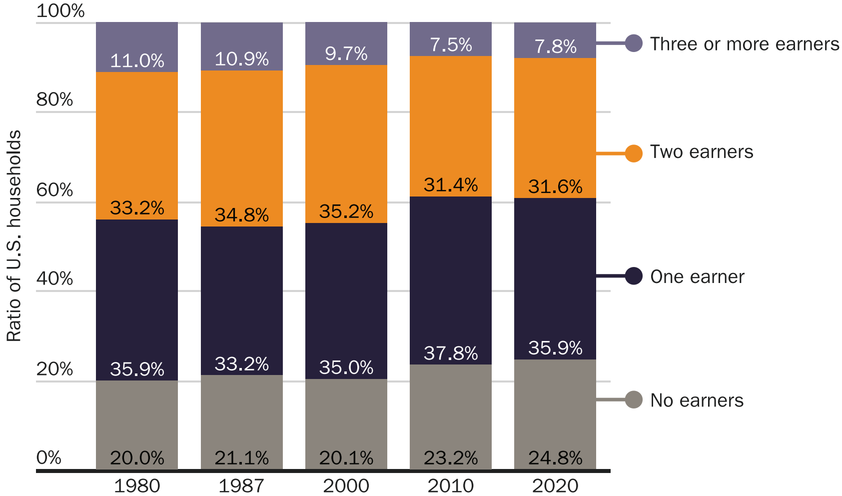
FIGURE 2 The share of high-income U.S. households has almost tripled since the 1960s



Source: Jessica Semega and Melissa Kollar, "Income in the United States: 2021," (U.S. Census Bureau, September 2022).

Note: Income figures are in 2021 dollars, adjusted using the R-CPI-U-RS. Household income is "total money income," defined by the Census Bureau as "the arithmetic sum of money wages and salaries, net income from self-employment, and income other than earnings," for all income recipients in the household.

FIGURE 3 The number of two-earner U.S. households has remained steady since 1980



Source: "1981 to 2021 Annual Social and Economic Supplements," U.S. Census Bureau Current Population Survey, October 8, 2021.

Nevertheless, there are some real reasons for concern about the U.S. labor market and American workers' situation therein. Prior to the pandemic, various measures of "labor dynamism"—the natural market churn of workers moving from job to job or place to place—had been in a decades-long decline. Measures of business dynamism, especially new business formation (for workers-turned-entrepreneurs), exhibited similar trends. At the same time, certain segments of the workforce, such as less-educated prime-age men, were exiting the labor force altogether, and workers of all income and education levels have faced increasing costs of essential goods and services, such as housing and childcare. Thus, policymakers' attention to the American worker is both unsurprising and, perhaps, even necessary.[8]

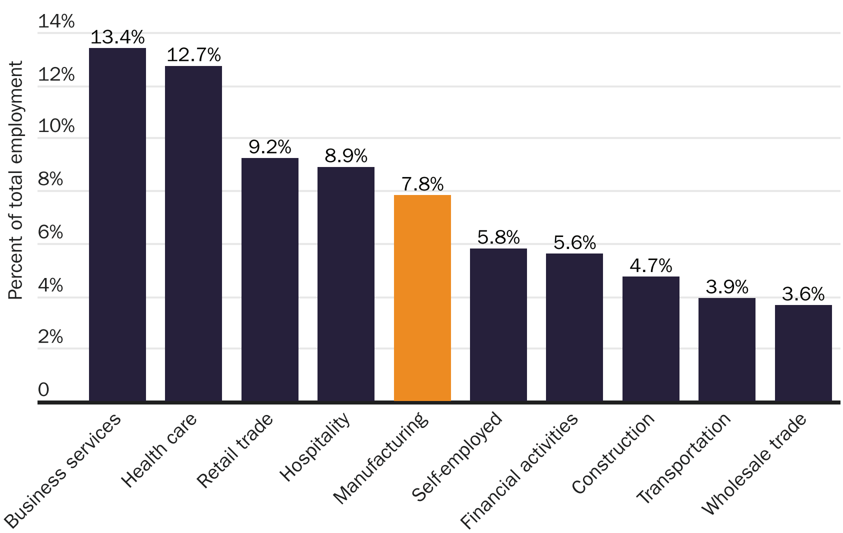
Unfortunately, the most common proposals addressing the challenges facing American workers today—heavy on government intervention in labor, trade, or other markets—ignore several critical facts and might therefore make things worse for the vast majority of the workforce. First, the proposals tend to overlook the laundry list of current federal, state, and local policies that enrich politically powerful interest groups but in the process disempower and tax most American workers, while breeding broader economic sclerosis along the way. Second, they ignore the numerous free-market solutions than can boost workers' independence, mobility, wealth, resilience, and quality of life. Neither a major new government program nor a fundamental rethinking of free-market capitalism is needed—in fact, much the opposite.

Finally, and perhaps most importantly, most "pro-worker" policy proposals fundamentally misunderstand that today's American worker is far different from the cookie-cutter models—for example, a middle-aged, sole breadwinner male in a unionized, nine-to-five, assembly line job, or a single, college-educated, urbanite female—that those policies most often target. Some American workers conform to those stereotypes, but many more do not, because the "American worker" is actually a diverse group of distinct individuals across a wide range of industries and localities, each with his or her own goals, desires, and skills.

For instance, the vast majority of American workers, female and male, are today employed in industries other than manufacturing (see Figure 4), whose share of the workforce (today about 8 percent) has declined steadily since 1953 (about 32 percent).[9] And in 2021, the number of blue-collar, male-dominated (60 percent or more) nonmanufacturing jobs in the United States outnumbered nonsupervisory manufacturing jobs by a nearly four-to-one margin (see Figure 5).

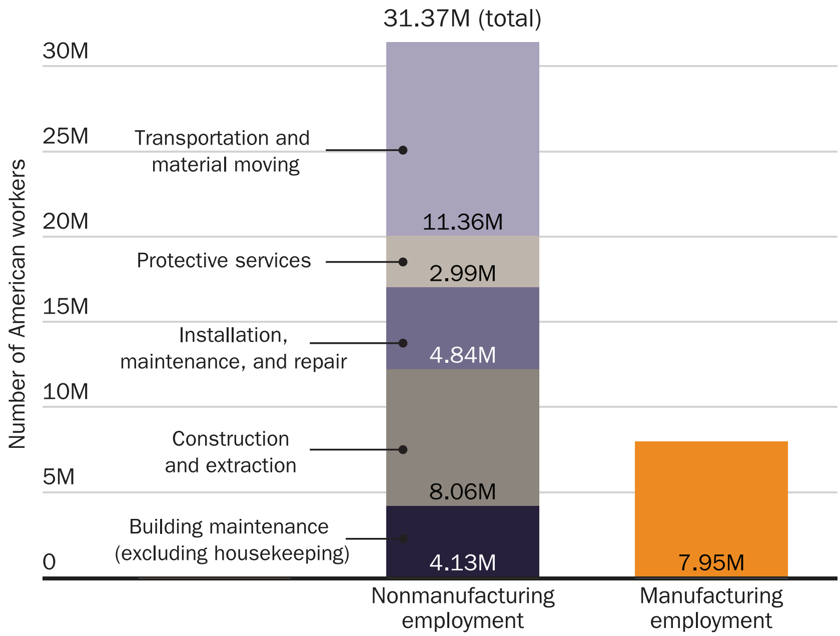
Contrary to the conventional wisdom, moreover, the current U.S. manufacturing job situation is not due to a lack of demand for these workers (caused by globalization or automation, for example): in the first quarter of 2022, there were around 850,000 unfilled manufacturing job openings, and new research from Deloitte and the Manufacturing Institute estimates that this figure could hit 2.1 million by 2030.[10] There are plenty of manufacturing jobs—for those who want and can qualify for them.

FIGURE 4 Most American workers are employed in industries other than manufacturing



Source: "Employment by Major Industry Sector," Bureau of Labor Statistics, Table 2.1, September 8, 2022.

FIGURE 5 Four times as many American workers are employed in male-dominated, blue-collar service industries than in manufacturing



Ratio of nonmanufacturing employment to manufacturing employment: 3.95

Source: "Labor Force Statistics from the Current Population Survey," Bureau of Labor Statistics, Table 11, January 20, 2022.
Note: Blue-collar is defined as a nonmanagement occupation. Male-dominated is defined as industries in which at least 60 percent of workers are male. Production occupations are used as a proxy for manufacturing employment.

Indeed, much of the current lack of manufacturing workers in America reflects the changing nature and demands of modern manufacturing work. Two new studies from the Federal Reserve system have found that the long-standing manufacturing wage premium over nonmanufacturing jobs has essentially disappeared, and "manufacturing companies are increasingly competing with other sectors for skilled labor."[11] Furthermore, many of the manufacturing jobs of tomorrow will actually be in services (e.g., industrial robot maintenance and repair) or require advanced skills and postsecondary education—far different from the routine assembly line jobs of the past that required only a high school degree.[12] As of 2021, more manufacturing workers above the age of 25 had an associate's degree or higher (45.1 percent) than had, at most, a high school degree (40.2 percent), continuing a trend of increasing education in the sector that dates back decades.[13]

This does not mean, of course, that all workers must aspire to attain a traditional four-year bachelor's degree, either. Today, online educational institutions—driven in part by the pandemic—have become increasingly popular and well-respected, while "Google has launched certificate programs that it says it will treat as the equivalent of four-year college for hiring purposes."[14] Noncollege pathways also are promising: store managers at Whole Foods can make well over $100,000 without a degree, and employer-led apprenticeship and retraining initiatives, such as Toyota's Federation for Advanced Manufacturing Education program, have successfully vaulted participants into a similar pay range.[15] And massive retailers including Amazon, Walmart, and Target employ millions of Americans and are constantly pushing the compensation envelope (and each other). Walmart announced in 2022 that first-year truck drivers will make up to $110,000, with both training and licensing paid by the company.[16] It thus pays more today—*much more* in some places—to move the proverbial "cheap T-shirt" in America than it does to manufacture it here.[17]

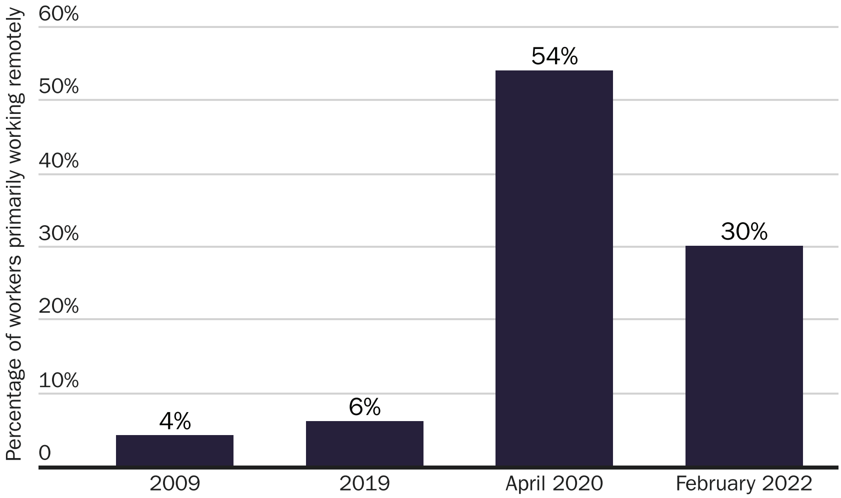
As a result of these college alternatives and other factors (e.g., rising student debt loads), the "wealth premium" (extra net worth) that American college graduates long enjoyed over their noncollege peers has shrunk dramatically in recent years, and the unemployment rate for young college graduates has actually exceeded the rate for all workers since 2018 (though young college grads still enjoy some, albeit shrinking, employment advantage over noncollege workers of the same age).[18] In short, college isn't for everyone, nor does it need to be.

The pandemic has also accelerated fundamental changes to workers' relationships with their workplace. According to the Census Bureau, 30 percent of employed adults reported in February 2022 that they worked remotely most or all of the time (up from 6 percent in 2019), and Pew Research Center reports that 61 percent of respondents working from home preferred that arrangement to going to their workplace (see Figure 6).[19] Contrary to conventional wisdom, these "teleworkable" jobs are available not merely to wealthy or college-educated workers but also to those with less education or income.

The growing prominence of remote and hybrid work has profound implications, not only for the traditional office and workweek but also for entire industries and communities in the United States. For example, remote work's rise has likely increased employment opportunities for disabled workers and those with small children or relatives needing long-term care. And research shows that telework has fueled significant changes in where people are moving and living while also boosting home prices.[20]

Remote work's post-pandemic durability reflects, at least in part, that many American workers, especially younger ones, value flexibility and lifestyle above higher wages or the office work routine. Barrero et al. (2022) have therefore shown that many employers have offered remote work options to temper wage increases because their workers value this new amenity more than a slightly larger paycheck.[21] Notoriously demanding investment banks, meanwhile, are begrudgingly bending to workers' desire for more flexibility.[22] And even in manufacturing,

FIGURE 6 Remote work has increased dramatically since 2019



Sources: Patrick Coate, "Remote Work before, during, and after the Pandemic," National Council on Compensation Insurance, January 25, 2021; Lydia Saad and Ben Wigert, "Remote Work Persisting and Trending Permanent," Gallup, October 13, 2021; and Taylor Orth, "Many More Americans Prefer Working from Home than Currently do," Yougov, February 11, 2022.

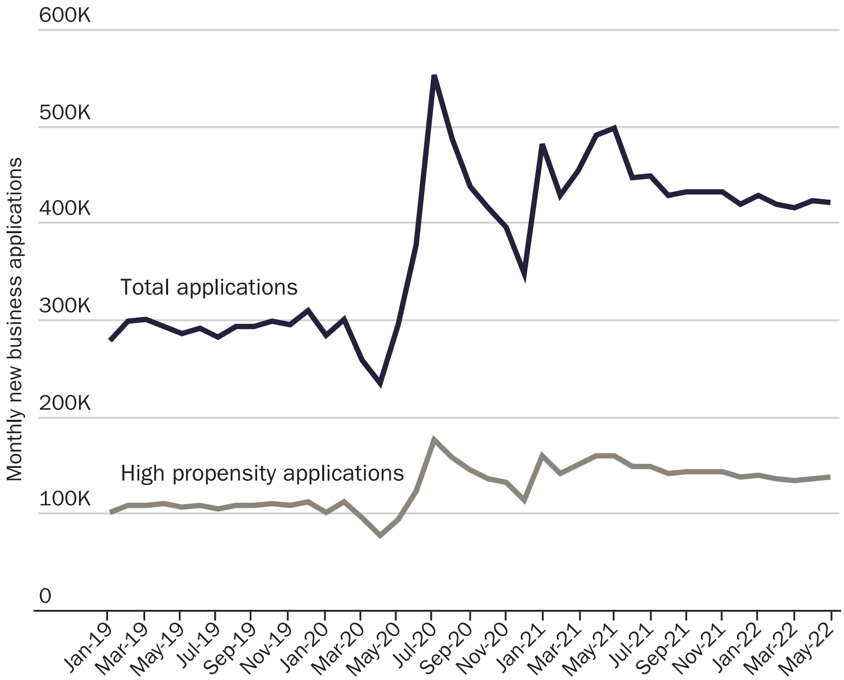
prospective workers today increasingly value personal well-being, work flexibility, and geography above other employment attributes.[23]

More Americans are also going out on their own—and making good money doing so. Between 2017 and 2021, the share of workers categorized as "freelance" held steady at about 36 percent, but that share increasingly consisted of skilled workers—in computer programming, business consulting, marketing, information technology, and other services—while the percentage of temp workers declined.[24] In 2021, more than half of all freelancers in the United States provided skilled services or labor.[25] The number of new business applications, both "high propensity" (i.e., those likely to have employees and payrolls) and sole proprietorships, also increased substantially during the pandemic and has remained elevated (see Figure 7).

The self-employment trend is not, however, limited to part-time gig workers or white-collar knowledge workers. Commercial trucking, for example, recently saw a significant increase in drivers quitting large firms and becoming independent owner-operators, and large shares of new business applications have been in industries other than knowledge or gig work (see Figure 8).[26]

American workers' increased desire for flexibility and self-determination again looms large in these figures. Along with pursuing work they find "meaningful," freelancers surveyed by Upwork in late 2021 said control over their schedule

FIGURE 7 New business applications soared during the pandemic



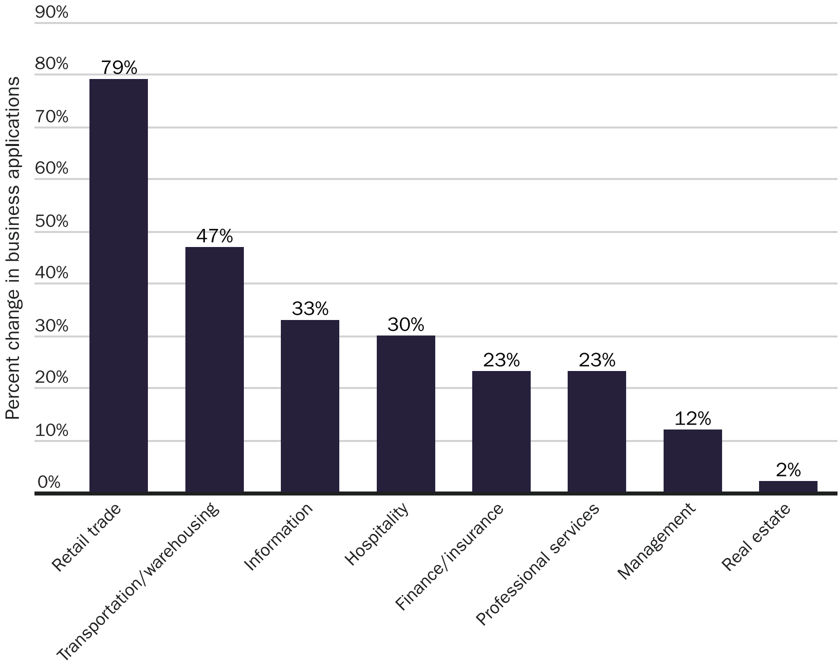
Source: "Monthly Business Applications (Seasonally Adjusted)," Business Formation Statistics, U.S. Census Bureau, September 14, 2022.

(78 percent) and location flexibility (73 percent) were key motivators.[27] Gig workers report much the same.[28]

Workers' personal lives also vary widely, and in ways that again often diverge from the caricatures drawn by many politicians. According to new research from the University of Texas, for example, approximately 70 percent of American mothers can today expect to be the primary breadwinner in their household for at least one year, and this trend is mostly about married moms, not unmarried ones: the share of primary-earning mothers who were married increased from 15 to 40 percent between 2000 and 2017.[29] A Center for American Progress study found that approximately 41 percent of working mothers in 2019 were sole or primary breadwinners, but these numbers varied widely by race, income, and locality.[30] Evidence is mixed, on the other hand, as to whether Americans want bigger families.[31]

At the same time, the pandemic may have changed long-standing views of the lives we *thought* workers wanted. The decades leading up to 2020 saw Americans moving to urban centers (especially on the coasts) and parents working away from home—situations that were assumed would continue indefinitely but that

FIGURE 8 Self-employment increased across a wide range of industries from 2019 to 2021



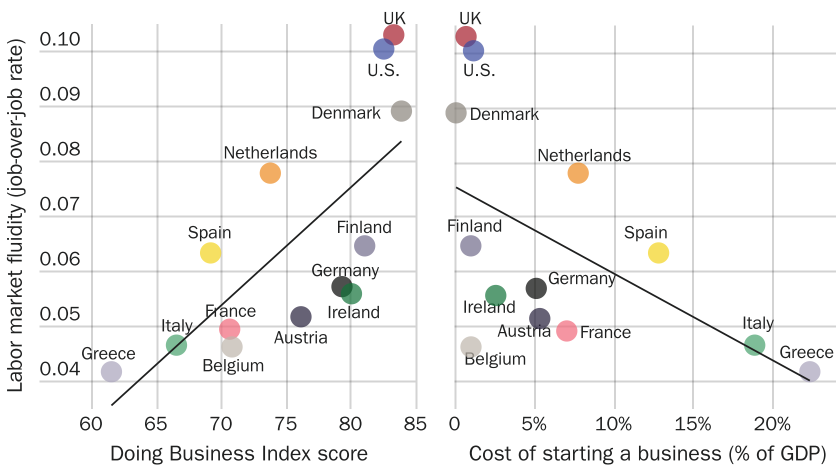
Source: Guillaume Vandenbroucke and Victoria Yin, "The COVID-19 New Business Boom," *Economic Synopses* 6 (2022): 2.
Note: "Accommodation and Food Services" was renamed "Hospitality" due to space constraints.

might now be changing.[32] Suddenly, Americans are moving back to the suburbs, and the country's hottest job markets are in small or midsize cities in the Sun Belt and Midwest.[33] Juggling childcare and children's schooling has required working parents to rearrange their schedules and work off-hours, which has strengthened their preferences for flexibility, remote work options, and starting their own businesses—preferences that are reflected in Figures 6–8.[34]

Finally, the American worker is increasingly globalized, contrary to the common assumption that protectionism and nativism are working class policies. According to the review of new Census Bureau data in Handley et al. (2021), American companies that engage in international goods trade constitute only 6 percent of all U.S. companies yet account for half of U.S. jobs.[35] These same goods traders support jobs not only in manufacturing but increasingly in services, such as management, retail, transportation, utilities, and wholesale trade. And they are increasingly responsible for job creation, accounting for more than half of all net new jobs in the United States since the Great Recession, which is due primarily to new business establishments (startups). Even in manufacturing, goods traders experienced net job creation since 2011, while nontrader manufacturers lost jobs overall. Leaving aside the numerous other benefits of trade and foreign investment for the economy, the data present a compelling case against worker-centric protectionism and for greater international engagement.

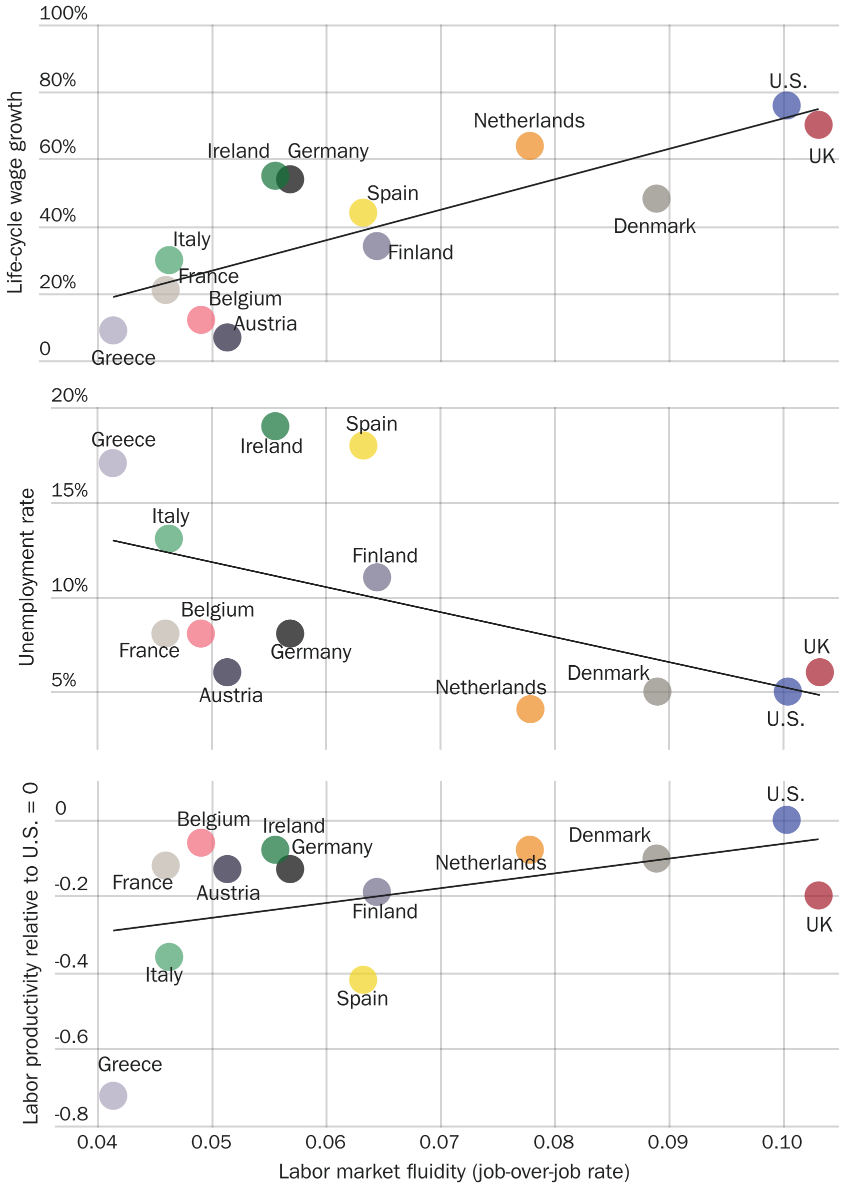
Overall, these trends argue for pro-worker policies that, instead of promoting a certain kind of American worker or presuming that the employment and lifestyle trends of today will last beyond tomorrow, maximize workers' autonomy and mobility between jobs or localities. Market-oriented policies that achieve these objectives not only would boost workers' freedom and resilience but also have been shown to boost their long-term wages and living standards. By contrast, supposedly pro-worker policies that end up reducing mobility, raising employers' costs, and pigeonholing workers into certain preordained jobs or workplace arrangements not only contradict recent trends but also significantly reduce workers' lifetime earnings, career advancement, and skills accumulation—thus harming a nation's overall labor productivity and economy more broadly (see Figure 9 and Figure 10).[36]

FIGURE 9 Fluid labor markets tend to make it easier to start and run a business



Source: Niklas Engbom, "Labor Market Fluidity and Human Capital Accumulation," National Bureau of Economic Research Working Paper no. 29698, January 2022, p. 38.
Note: Data for men between the ages of 25–54. Labor market fluidity calculated using the annual job-over-job rate, which is the frequency of workers' transitions from job to job. Doing Business Index and cost of starting a business scores are from the World Bank. Cost of starting a business is relative to gross national income per capita.

FIGURE 10 Fluid labor markets tend to have higher wage growth, employment levels, and productivity



Source: Niklas Engbom, "Labor Market Fluidity and Human Capital Accumulation," National Bureau of Economic Research Working Paper no. 29698, January 2022, p. 28.
Note: Data for men between the ages of 25–54. Labor market fluidity calculated using the annual job-over-job rate, which is the frequency of workers' transitions from job to job.

Put simply, pro-*market* policies are very much pro-*worker* policies too.

This book identifies what Cato Institute scholars believe to be the most important market-oriented policies for the new American worker today, covering a broad array of issues including education, housing, remote work, health care, criminal justice, and licensing. These policies fall into four categories: policies to ensure a sound macroeconomic foundation that broadly improves workers' living standards and the long-term health of the economy; policies to facilitate workers' professional improvement or advancement; policies to promote worker mobility and independence; and policies to improve workers' access to, and to lower the cost of, essential goods and services. Each chapter will identify current problems facing American workers and their causes and then will suggest pro-market ways for federal, state, and local policymakers to fix them.

Combined, these policies will give individuals in the United States the freedom and resources they need to be the American worker *they want to be*—not the one a few policymakers think they *should* be—and to be happier and more prosperous in the process.

NOTES

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