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The New Untouchables

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Last summer I attended a talk by Michelle Rhee, the dynamic chancellor of public schools in Washington. Just before the session began, a man came up, introduced himself as Todd Martin and whispered to me that what Rhee was about to speak about — our struggling public schools — was actually a critical, but unspoken, reason for the Great Recession.

There's something to that. While the subprime mortgage mess involved a huge ethical breakdown on Wall Street, it coincided with an education breakdown on Main Street — precisely when technology and open borders were enabling so many more people to compete with Americans for middle-class jobs.

In our subprime era, we thought we could have the American dream — a house and yard — with nothing down. This version of the American dream was delivered not by improving education, productivity and savings, but by Wall Street alchemy and borrowed money from Asia.

A year ago, it all exploded. Now that we are picking up the pieces, we need to understand that it is not only our financial system that needs a reboot and an upgrade, but also our public school system. Otherwise, the jobless recovery won't be just a passing phase, but our future.

“Our education failure is the largest contributing factor to the decline of the American worker's global competitiveness, particularly at the middle and bottom ranges,” argued Martin, a former global executive with PepsiCo and Kraft Europe and now an international investor. “This loss of competitiveness has weakened the American worker's production of wealth, precisely when technology brought global competition much closer to home. So over a decade, American workers have maintained their standard of living by borrowing and overconsuming vis-à-vis their real income. When the Great Recession wiped out all the credit and asset bubbles that made that overconsumption possible, it left too many American workers not only deeper in debt than ever, but out of a job and lacking the skills to compete globally.”

This problem will be reversed only when the decline in worker competitiveness reverses — when we create enough new jobs and educated workers that are worth, say, \$40-an-hour compared with the global alternatives. If we don't, there's no telling how “jobless” this recovery will be.

A Washington lawyer friend recently told me about layoffs at his firm. I asked him who was getting axed. He said it was interesting: lawyers who were used to just showing up and having work handed to them were the first to go because with the bursting of the credit bubble, that flow of work just isn't there. But those who have the ability to imagine new services, new opportunities and new ways to recruit work were being retained. They are the new untouchables.

That is the key to understanding our full education challenge today. Those who are waiting for this recession to end so someone can again hand them work could have a long wait. Those with the imagination

to make themselves untouchables — to invent smarter ways to do old jobs, energy-saving ways to provide new services, new ways to attract old customers or new ways to combine existing technologies — will thrive. Therefore, we not only need a higher percentage of our kids graduating from high school and college — more education — but we need more of them with the right education.

As the Harvard University labor expert Lawrence Katz explains it: “If you think about the labor market today, the top half of the college market, those with the high-end analytical and problem-solving skills who can compete on the world market or game the financial system or deal with new government regulations, have done great. But the bottom half of the top, those engineers and programmers working on more routine tasks and not actively engaged in developing new ideas or recombining existing technologies or thinking about what new customers want, have done poorly. They’ve been much more exposed to global competitors that make them easily substitutable.”

Those at the high end of the bottom half — high school grads in construction or manufacturing — have been clobbered by global competition and immigration, added Katz. “But those who have some interpersonal skills — the salesperson who can deal with customers face to face or the home contractor who can help you redesign your kitchen without going to an architect — have done well.”

Just being an average accountant, lawyer, contractor or assembly-line worker is not the ticket it used to be. As Daniel Pink, the author of “A Whole New Mind,” puts it: In a world in which more and more average work can be done by a computer, robot or talented foreigner faster, cheaper “and just as well,” vanilla doesn’t cut it anymore. It’s all about what chocolate sauce, whipped cream and cherry you can put on top. So our schools have a doubly hard task now — not just improving reading, writing and arithmetic but entrepreneurship, innovation and creativity.

Bottom line: We’re not going back to the good old days without fixing our schools as well as our banks.

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