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Transforming U.S. supply chains to create good jobs

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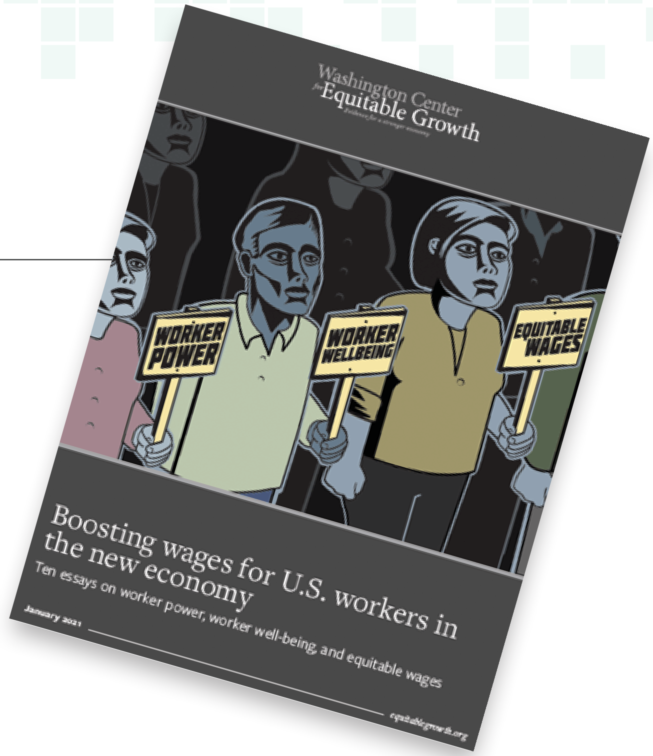
By Equitable Growth



Overview

How firms structure their supply chains has important consequences for U.S. workers and employers. In recent decades, firms have outsourced tasks previously done in-house to outside suppliers—firms that specialize in the manufacturing of certain products or in the provision of services such as logistics, cleaning, and information technology. Current models of outsourcing and offshoring often lead to worse jobs in the United States and worse outcomes for U.S. workers. It is therefore critical to adopt policies that promote "high-road" supply chains that lead to higher earnings, good-quality jobs, and more innovation.

This factsheet examines how the structure of supply chains can hold down wages—as well as key policy solutions—based on the essay "Transforming U.S. supply chains to create good jobs," by Susan Helper of the Weatherhead School of Management at Case Western Reserve University. The essay is part of *Boosting Wages for U.S. Workers in the New Economy*, a compilation of 10 essays from leading economic thinkers who explore alternative policies for boosting wages and living standards in the United States, rooted in different structures that contribute to stagnant and unequal wages.

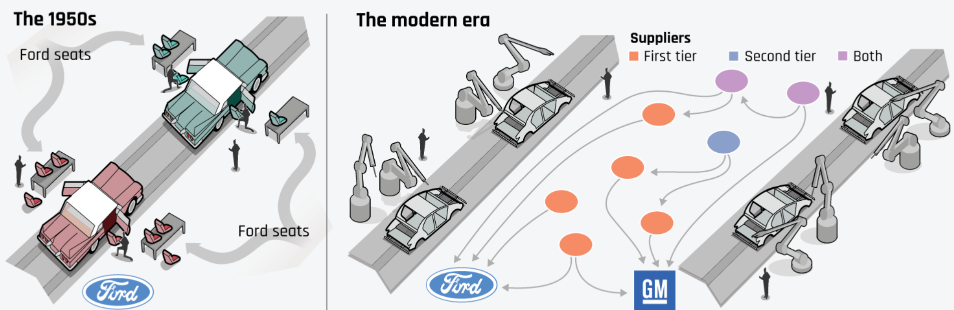
How supply chains, outsourcing, and offshoring affect U.S. workers

Supply chains are made up of a complex network of firms involved in designing, producing inputs for, assembling, and distributing a good or service. Currently, 43 percent of U.S. workers are in supply chain industries, meaning they

FIGURE 1

Supply chains and network: Then and now

The difference between the supply chains of vertically integrated companies in the mid-20th century and the networked supply chains of the 21st century



For example, seats for Ford cars were designed and manufactured by Ford. The seats may have been made in a plant separate from the assembly plant, but the seat plant was also owned by Ford.

In today's networked supply chain, parts of the automobile are built by multiple suppliers. These suppliers often provide their products to competing automakers. Supply chains are organized in "tiers", with first-tier suppliers supplying automakers directly, and second-tier suppliers supplying the first-tier suppliers. Some suppliers do both. (Often, supply chains have many tiers, including third- and fourth-tier suppliers).

Source: Susan Helper, "Building high-road supply networks in the United States" (Washington: Washington Center for Equitable Growth, 2019), available at https://equitablegrowth.org/building-high-road-supply-networks-in-the-united-states/.

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are employed at either lead firms or their suppliers.[1] Some forms of outsourcing promote innovation by making it possible for large firms to buy key inputs from firms that specialize in certain technologies or processes. But because suppliers of intermediate goods and services are often small and have little market power, outsourcing can create incentives for supplying firms to compete by cutting corners on established processes and paying less. (See Figure 1.)

Low-road outsourcing leads to lower pay and bad-quality jobs

Research suggests that there are several ways in which "low-road" outsourcing results in worse jobs. Firms such as Uber Technologies Inc., for example, tightly monitor the workers in their supply chains, even though they are not their employees. In this type of work, contractors are closely tracked but have no control over the price they charge for their services.[2] Lead firms may also structure their supply chains in such a way that their suppliers are easily replaceable—a strategy that lowers barriers to entry to being a supplier and makes it more difficult for suppliers to capture rents.[3] In addition, outsourced workers are not protected by the norms of fairness that encourage rent-sharing and limit wage differentials within firms.[4]

Policy recommendations for fair, innovative supply chains

"High-road" supply chains can benefit firms, workers, and consumers through greater collaboration between workers and management, as well as through the sharing of skills and ideas along supply chains.[5] Below are four policy ideas that would improve job quality and rein in income inequality by redesigning the structure of supply networks:

- **Reducing bargaining power differences between lead firms and outsourced workers by improving bargaining power for all workers.** This includes policies that promote worker power such as a higher minimum wage, making it easier for workers to unionize, and universal healthcare.

- **Increasing the capability of small firms for quality and innovation.** The federal government can provide technical assistance, subsidize, and participate in efforts aimed to help small firms develop their productive capabilities. It should also fund the development of high-road management practices that promote innovation.

- **Redesigning supply chains to promote collaboration and partnership among firms.** The federal government can encourage information sharing, supply-chain redesign, and greater investment in innovation in the following ways:

  - Encourage lead firms to share ideas and training with their suppliers

  - Act as a high-road purchaser by buying preferentially from firms that pay prevailing wages and blocking purchases from companies if they or their suppliers engage in labor law violations

  - Establish a commission to detect and prevent incentives to offshore manufacturing and services operations

- **Strengthening productive ecosystems.** Few institutions support suppliers with innovation, training, or financing. The federal government should support networks such as sectoral partnerships among employers, unions, and community colleges that create continuing-education programs in order to create career ladders for workers.

Read the full essay

"Transforming U.S. supply chains to create good jobs," by **Susan Helper**

This essay is part of Boosting Wages for U.S. Workers in the New Economy*, a compilation of 10 essays from leading economic thinkers who explore alternative policies for boosting wages and living standards, rooted in different structures that contribute to stagnant and unequal wages.*

Endnotes

1 Mercedes Delgado and Karen G. Mills, "The supply chain economy: A new industry categorization for understanding innovation in services," *Research Policy* 49 (8) (2020).

2 National Employment Law Project, "Remote Control: The Truth and Proof About Gig Companies as Employers" (2020), available at https://s27147.pcdn.co/wp-content/uploads/NELP-PWF-Fact-Sheet-Remote-Control-Truth-Proof-Gig-Companies-Employers.pdf.

3 Susan Helper and Rebecca Henderson, "Management Practices, Relational Contracts, and the Decline of General Motors," *Journal of Economic Perspectives* 28 (1) (2014): 49–72, available at https://www.aeaweb.org/articles?id=10.1257/jep.28.1.49.

4 Erica L. Groshen, "Sources of Intra-Industry Wage Dispersion: How Much Do Employers Matter?" *The Quarterly Journal of Economics* 106 (3) (1991): 869–884, available at https://doi.org/10.2307/2937931.

5 Susan Helper, "Building high-road supply networks in the United States" (Washington: Washington Center for Equitable Growth, 2019), available at https://equitablegrowth.org/building-high-road-supply-networks-in-the-united-states/.

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