AGENDA FOR SHARED PROSPERITY — EPI

THE ECONOMIC POLICY INSTITUTE initiative for solutions that match the scale of the problems.

The Agenda for Shared Prosperity

Edited Transcript for "Work That Works" Forum

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Speakers and Presenters:

Lawrence Mishel, President of EPI and the co-author of *The State of Working America*
Paul Krugman, Professor of Economics & International Affairs at Princeton University, Columnist for *The New York Times*
Beth Shulman, Author, *The Betrayal of Work: How Low-Wage Jobs Fail 30 Million Americans and Their Families*
Tom Kochan, Co-director, Institute for Work and Employment Research at the Massachusetts Institute of Technology
Harley Shaiken, Class of 1930 Professor, Graduate School of Education and Department of Geography at the University of California, Berkeley
Richard Freeman, Herbert S. Ascherman Professor of Economics, Harvard University
Holly Fechner, Labor counsel for the Senate Health, Education, Labor and Pension Committee
Mark Levinson, Senior fellow of EPI

Segments:

Part One: Keynote and Discussion of "Work That Works" featuring Paul Krugman
Part Two: "The New Social Contract" featuring Beth Shulman and Tom Kochan
Part Three: "Unions, the Economy, and Employee Free Choice" featuring Harley Shaiken and "Do Workers Still Want Unions? Yes, More Than Ever" featuring Richard Freeman

Keynote and Discussion

(Hour One)

LAWRENCE MISHEL: Welcome to our second public forum of the Agenda for Shared Prosperity. Let me first tell you a bit about our policy initiative, and then I'll introduce our keynote speaker, Paul Krugman.

We have undertaken this effort, the Agenda for Shared Prosperity Initiative, because we think that the American people need an economic agenda that will spur growth, reduce economic insecurity, and provide for broadly shared prosperity. The purpose is to address the growing gap between America's promise and its problems. This is the right moment for exploring economic problems. It is clear the economy has not been working for working people. We note in particular the growing gap between healthy productivity growth and the stagnant wages of high school-educated workers and college-educated workers.

We note that this is the result of a shift in bargaining power away from individuals and workers, towards employers and the very well off. This is a country that once grew together, and that now grows apart. We believe these disappointing economic trends reflect a failure of conservative policies. It's clear that tax cuts have not worked. They have not delivered broadly shared prosperity. They have not created the promised jobs. They have not even created the promised investment that they said they would do.

We challenge the pervasive conservative argument that Americans are on their own in dealing with the economic sea changes that they are experiencing. My colleague Jared Bernstein has referred to conservative policies as “Yo-Yo (You’re on Your Own) Economics.” We think the American people have rejected the idea of, “Just give me my own health savings account, personal savings account, personal unemployment insurance account, my personal everything, and I’ll be okay.” That’s not the way forward.

It’s also not the way forward to just believe that we can get shared prosperity by accelerating – putting the pedal to the metal on globalization and getting greater national savings. That will neither create the growth we need, nor reconnect pay and productivity. This is the motto of our initiative: America needs solutions that match the scale of the problems. We can’t just pretend that old or small-scale policies work, and a few middle-class tax cuts here and there are going to do the job.

We believe the success or failure of the economy is not measured by how fast the stock market and economy grows. It’s really the extent to which the vast majority are seeing their living standards improve. We challenge the superficial assertion that global forces – technology, competition – have rendered Americans helpless to do anything about the circumstances they face, other than to individually adjust to the outcomes of the unregulated market.

We think of ourselves as inheritors of a tradition that believes that the American people working together through their government can make the economy grow, reduce economic inequality and insecurities, provide affordable and accessible health care for all, ensure retirement income security, protect the rights of working people, and help households balance work and family life. And that's our task. And today we are examining the employment relationship, the role of unions, the unraveling of the social contract and how to rebuild it, which is an essential part of restoring broadly shared prosperity.

It's now my pleasure to introduce Paul Krugman. Paul has been well known among economists for many years. I still think of him as an international trade theorist, although I think other people may not think of him that way. But we were all aware of his writings for many years when he was a professor at MIT and earlier. He started writing for a broader public audience in the early 90s, but since he's had his *New York Times* column, I think he has reached a really, really broad audience.

I'm going to list three reasons why I really appreciate Paul. One, I recognize as an economist that I come from a profession that frequently looks down upon speaking to a broad audience, rather than just publishing articles read by a technical elite. And I know that Paul's becoming a public intellectual bears a cost in terms of some narrow-minded folks. And so I very much appreciate his stepping into that role.

Second, you've got to respect the fact that Paul speaks truth to power. Whether it's calling the Bush administration on their incompetence or deceptions, he has bluntly talked about income inequality for many years, and the ugly fact that the very wealthiest have grabbed the lion's share of income growth. And he has pointed out that its public policies that have helped generate this. It's not just a force of nature.

Last, I want to give what perhaps is my biggest compliment to Paul. It is that he, like EPI, is willing to go beyond the mainstream. Rather than be in the comfortable mainstream, he ends up being what I would call downstream, which is where mainstream people will be a few years hence. So, without further ado, Paul Krugman.

PAUL KRUGMAN: Actually what I want to talk about is going to dovetail pretty closely on what Larry was saying. I want to talk about inequality and some things that we need to understand and think about in trying to understand what's going on and what can be done. Before I get to this, let me just say, why should we be so concerned about rising inequality, about this really dramatic change that's happened over the past 30 years in the United States?

One of them is just a straightforward issue that we've been very good at generating overall growth, but very bad at actually spreading that. The fruits of the growth have been remarkably small for most Americans. It's interesting. There is a large debate: Are the numbers that say that the real wage of the typical non-supervisory worker has actually fallen since about 1970 really right? Should we be correcting for new goods? Is the price index misleading?

I think the meaningful thing there is that we're even having that discussion. In 1972, nobody asked whether we were really had had gains in income since the end of World War II. There was no question that that first post-war generation represented an enormous increase in the standard of living of everybody. Since then, it's within the range where we really have to struggle to find clear-cut evidence. And yes, people probably are materially better off than they were in the 1970s, but not nearly as much as they should be, giving the extent to which we are a more productive economy.

I just want to say two additional points. The first is a highly unequal society is inherently undemocratic in ways that really matter. I mean, we have these sometimes reasonable conservatives who will say, "Look, what I really care about is equality of opportunity, and I don't really think we should care about inequality of outcomes."

But the fact of the matter of course is that if you have really highly unequal distribution that translates into inequality of opportunity. And EPI had a brief that I just read, actually put out more than a year and a half ago, about the relationship between test scores, socioeconomic status, and college graduation. And yes, it is true that students coming from high status households with low-test scores are more likely to complete college than students coming from low-status households with high-test scores. It actually is true that class trumps ability in terms of the actual ability to get through college.

So, the fact that we have such a highly unequal society does mean inequality of opportunity as well as outcomes. And it's not good. The last thing is just to say that it's very clear from the history that a highly unequal society has nasty politics. You ask, "Why are things so bitter, so harsh here?" It's not because we've mysteriously had an inflow of people with bad manners into the U.S. Congress. It's driven by the fact that we actually do have class-dominated politics.

And the reason we have class-dominated politics is because in a highly unequal society the class interests are so different. But the relationship between income inequality and polarization of politics is just overwhelming in historical track. The question, though, and I think this comes to where Larry wanted us to talk, is can we do anything about it? And one thing I've been noticing on multiple debates in public policies – climate change is another one – is there seems to be an almost seamless transition from denial to fatalism. That for 15 or 20 years the people would say, "No, what you're saying is not happening." And then almost immediately they'll turn around and say, "Well, yeah, sure it's happening, but there's nothing that can be done about it."

And that's kind of the way a lot of the discussion now goes on inequality. That there is really nothing you can do to arrest this. That it's all the invisible hand driving this growth in inequality, and there's nothing you can do to really change it – well, maybe better education. But while education is very much a good thing, it's the all-American way of dodging problems. Since everybody approves of it, you say we should have better education but wave away the pretty strong evidence that while it's a good thing, it won't make very much difference. So there's this general sense that you can't do anything.

And I don't think that that's what the historical record suggests. That in fact when we look at it, there appears to be quite a lot that the political process can do about inequality. Just to say, there's the obvious. Obviously, even if you look at the United States right now, the tax and social insurance system makes an enormous difference.

But the amount of inequality in the United States is substantially less than it would be if we did not have still at least somewhat progressive taxation, and still a pretty extensive, though not nearly extensive enough, system of social insurance. And that makes a big difference. Certainly if you're looking at say the United States versus Canada, a lot of the difference between the two countries is just that Canada has more of a better safety net financed by somewhat higher taxation.

And if you're looking for a progressive agenda, certainly from my point of view, a large part of that ought to be straightforward orthodox stuff, which is still very hard to do politically. It would be essentially restoring progressivity of the tax system, and using the revenue to improve social insurance and, above all, health care.

So, if you say what would I really like if I went into a Rip Van Winkle sleep and woke up ten years from now, I'd like to wake up and discover that we have a national health care in some version with the necessary funding supplied in part by higher taxes on me, or actually, the top two percent of the income distribution. But people a lot richer than me, of course. But it's not the whole story that the only thing you can do is taxes and social insurance. And the arc of history for the United States suggests that there's actually a lot more that can happen.

If you look back across the past 80 years or so of the United States, what you see is that in the 1920s, we were for practical purposes still in the gilded age. That may not be the way the historians cut it, but in terms of the actual distribution of income, so far as we can measure it in terms of the role of status and general feel of the society, we were still an extremely unequal royalist society.

By the time World War II was over, we had become the middle-class society that the baby boomers in this audience grew up in. We had become a much more equal society. That high degree of equality began to go away – depending on exactly which numbers you look at – during the late 70's, maybe a little earlier than that. And at this point we're basically back to pre-tax and transfer to the levels of inequality that we had in 1929.

So there is this great arc to the middle class, away from gilded age to middle-class society and then back to the new gilded age, which is now what we're living in. And there are really two puzzles about that. One of them is a political puzzle, which is why instead of leaning against these trends, politics has actually reinforced them. Why it is that U.S. politics moved left in the age of a relatively middle-class society, and moved right as society got more unequal?

A naïve view of politics would say that, "Gee, when a few people are winning a lot and most people are lagging behind, people ought to be voting for more social insurance and more progressive taxation, not less." And we have some understanding of why that doesn't happen. It has to do with the role of money, organization and all of these other things that affect politics. That story also helps us understand why politics gets so nasty.

If you actually look at some of the measures - I'm really into quantitative political science these days – of political positions that political scientists calculate, it does look as if what the main thing that moves actually over time is in fact the Republican party. The Democratic Party has not – at least with northern Democrats – gotten significantly more liberal over the past. They haven't moved much at all over the past 30 years.

But the Republican Party, which had largely converged on the Democrats in the age of Eisenhower, has moved sharply to the right. And so that one party, in effect, moves with the income of the top 5 percent or 1 percent of the population. So that seems to be the story. I mean, we can think about reasons why that might be true. But the other puzzle, and this comes to the question of the conference, is what drove these changes? How did we become largely middle class?

Why have we become a much more unequal society once again? And the standard, what economists like to say, is "Well, it's all invisible hand. It's all market forces." The history doesn't seem to look like that, if we ask how did the society we had in 1947, which is when a lot of our data start, come into existence.

Was it a gradual process whereas the economy developed and we got out of the early days of the American industrial revolution, we gradually moved towards middle class-ness? Well, no, historically it happened in an eye blink. In this Claudia Golden and Bob Margot classic paper, they call it the great compression. As late as the late 30s, the income distribution appears to be highly unequal.

By the time you wake up in 1946 or so, it's highly equal. And how did that happen? A lot of it was more or less deliberate compression of wage differentials during World War II. But if you were or had standards, supply and demand for different types of labor, you'd say that should last only as long as the wage controls lasted. It should have sprung back to where it was, but it didn't. It actually stayed quite equal for another 30 years at least. You ask, what buttressed that? Well, partly it's the rise of a powerful union movement, which is at least in large part a change in the political climate, but then remained in place for several decades more.

Other things we're not sure. But it looks more or less as a leveling of the income distribution. Obviously we want to be careful about the words. No one presumably in this room, and certainly not me, is advocating Cuba. We're not calling for a flat income distribution. But the relative equalization that seems to have taken place was engineered by a combination of top-down politics and grassroots organization that made people want a more equal society in the 30s and the 40s, and they got it.

And it remained for quite a long time. Now, that started to come apart roughly 30 years ago, and there's been a large increase in inequality since then. As people probably know, I've written about the part that is sort of polite to talk about, which is the rising premium for highly educated workers. But that's only part of it. Even more spectacular is the increase in inequality of the far-right tail of the income distribution.

The CEOs and high school teachers who got roughly the same number of years of formal education haven't exactly had the same growth in income over the past 30 years. So, there's this vast increase in inequality at the top. What do we think caused that? I actually just had to do a class on that. It was in my international trade class, but we were doing the trade and inequality stuff.

And the question is what do we think is underlying the rise in inequality in the United States? And searching for metaphor, I actually ended up with the "Murder on the Orient Express." Not for what actually happened but for the way we described it. In "Murder on the Orient Express," somebody is killed and there are 12 suspects. The question is which of them did it and the answer actually is all of them. The official economic story about rising inequality is one in which we have a whole bunch of villains, which all seem to be playing a role.

So we've got skill bias and technological change, which is shifting demand towards highly educated workers. We've got growing international trade with increased imports of labor-intensive products further reducing demand for less educated workers. We have immigration, possibly similar in its effect to trade. We have the falling real value of the minimum wage contributing at the bottom end. We have some affected unionization driving the change in income distribution.

Finally, in terms of at least the after-tax distribution, we have changes in taxes which have, in general, reinforced rising inequality. It could be true, but it's kind of funny that all of these different things should be working in the same direction. In "Murder on the Orient Express," there is an elaborate conspiracy that means that all 12 of the potential suspects were actually in collusion. It's a little hard to see how all of these factors and economics are in collusion.

Okay, I think that what we can say is that the political climate matters more for the distribution of income than the economic models that we know how to work with and would seem to suggest more than our models capture. If you ask me practically what I want done now, I think that the most important agenda thing right now is, in fact, to work on the taxes and social insurance side, because that is concrete and you can get stuff.

But there is a lot of reason to believe that a change in the political climate in various ways can do a lot more than you would think just from looking at the taxes and social insurance. Let me give you two pieces of evidence that I looked at. One is that there is some really interesting, though intellectually disturbing, work by my colleague, Larry Bartell who is in the Princeton Politics Department and has just looked at what happens to income growth at different points in the income distribution under administrations of the two parties.

Now there shouldn't be a big difference really because at any given historical period, the visible policies are not all that different. Certainly there is a pretty significant shift from Clinton to Bush and there was, in fact, a pretty significant shift from Bush to Clinton previously. But it's in taxes and it really shouldn't be very obvious at pre-tax distribution of income. And yet what Bartell finds is actually there is a really striking difference.

Inequality on average rises under Republicans. At least in the bottom 80 percent of the income distribution, it's stable or falling under Democrats. The top 1 percent just kept on rising right through, but there is at least a surprising, fairly robust correlation.

The other thing I would say is timing. There's a very clear co-movement over time between income inequality and both the political polarization and the rightward tilt of our politics. It's pretty clear that the rising inequality over the past 30 years has been associated with a rightward shift of the political center of gravity, mainly because of the Republican Party shifting to the right.

You might say that’s the causation running from income distribution to politics. But if you actually then just start to look at it through history, the timing actually seems to be reversed. The rise of an aggressive or rightwing movement and the rise of a really major assault on the New Deal great society legacy both come before the big shift in income distribution takes place.

The emergence of the modern right is something that obviously dates back to Goldwater, but really becomes a political force in the ‘70s. You don’t really see the big changes in income distribution until the ‘80s. So it looks almost as if, just in this crude sense, politics is leading the economic changes. How could that operate? I just want to talk about two things. I suspect that there are quite a few channels that we don’t really perceive, but there are two that are fairly clear. One of them is unionization.

Obviously, private sector unions were very important in the U.S. 30 years ago and have very nearly – not completely, but very nearly – collapsed, and they are down to eight percent of private employment. Why did that happen? You will often see people saying – well, that’s because of de-industrialization, and because of the decline of manufacturing. But that is actually not right. It’s not right in two ways.

First of all, arithmetically, most of the decline in unionization is a result not of the decline in manufacturing share, but of the decline of the unionization of manufacturing itself. So the big thing that happens is that there is a collapse of unionization within the manufacturing sector and then of course also a smaller share of manufacturing in the economy, but it's much more dramatic on the collapse within the sector.

The other is that there is no law that says that unionization should be a manufacturing phenomenon. What it really is, to the extent that there is a story, is that large enterprises are more likely to be to be unionized. The reason why the high tend of unionization was also a period when manufacturing was the core of the union movement, is that at that time, large enterprises were largely a manufacturing phenomenon.

Now we have a service economy in which there are a lot of large service sector enterprises. Not to put too fine a point on it, but why exactly couldn't Wal-Mart be unionized? It doesn't face international competition. There is no obvious reason why it wouldn't be possible to have a strong union in Wal-Mart and in the big box sector and other parts of the economy. And just think of how different the whole political economy would look if the service sector enterprises were unionized.

Not necessarily all the effects would be positive, but it would certainly be very, very different. What happened? Why did manufacturing unionization collapse? Why didn't the emerging service sector get unionized? And the answer is actually pretty straightforward and pretty brutal. It’s politics and aggressive employer behavior enabled by politics.

I have seen estimates of a fraction of workers who voted for a union and who were fired in the early ‘80s. They range from a low of one in 20 to a high of one in eight. There is no question that aggressive, often illegal, union busting is the reason the union movement declined. And the change in the political climate that began in the ‘70s clearly played a role in making that possible.

Now how important is all of that? You may have seen that there have been a number of estimates of the effects of unions on income distribution. It’s funny. People will often say that those estimates are small and actually they typically are roughly comparable in size to typical estimates to the effect of international trade on income distribution. So these are both in secondary and the standard accounting to technological change, but both fairly significant.

What is more, there are a lot of reasons to think that those estimates are not capturing a lot of the story. As the people who do them will concede, what they basically do is say: What if the workers were paid, unionized and non-unionized workers were paid the same as they are now, and just do a sort of shift share analysis. What that doesn’t capture – and they know it, but there is just no way to do it better – is the effect of a strong union movement on the bargaining position of workers who are not unionized, but might be.

It doesn't capture the effect of a strong union movement and possibly disciplining insider behavior by executives and so on down the line. So it is likely that that is a much more important story than we typically give it credit for being. Let me just give you my other piece of the story, executive compensation. There's a raging debate now of how much of the soaring executive compensation is insider self-dealing, and how much of it is just market forces.

I went back and was looking at what people said about executive compensation when it was low, just 40 or 50 times the average worker salary. Let me read you some quotes. "Managerial labor contracts are not, in fact, a private matter between employers and employees." "Parties such as employees' labor unions, consumer groups, Congress and the media create forces in the political media that constrain the types of contracts." And so on down the line.

A lot of discussion was of the role of the political climate that was basically hostile to outrageous paychecks and constrained it. Where are these quotes from? They are actually from Michael Jensen and Kevin Murphy writing, saying people have complained that there are not enough incentives in executive pay. They are saying that what we really need is to have executives get more stock options and stake in the firm – in other words, all of the stuff that has happened since then.

So back when executive pay was low, 40 or 50 times average pay, it was actually the defenders of higher executive pay that complained that it was actually non-market forces that were constraining executive pay. Now of course that disclosing of pay has happened, the same side of the debate says it's ridiculous to claim that social norms and political forces have any role in this. But I think it's actually quite clear that it did.

We can argue about which is the natural market outcome. But the point is, in fact, that we had a society 25 years ago in which there were some constraints imposed by public opinion, by strong unions, by a general sense that there were things that you don't do. And maybe that led firms to make a decision to think of there being a sort of tradeoff between a "let's have a happy high morale" workforce, or let's have a super star CEO and squeeze the workers for all we can. There were some things that tilted the balance in that decision.

Okay, are we going to do another great compression? Hopefully not. The reason I say hopefully not is even FDR needed World War II to be able to carry out that sort of wholesale social engineering that took place. I am not looking forward to having a replay of that. I think that if we get serious, as some of us hope we do, and we actually do have a swing back in the political pendulum that – in addition to the direct stuff – we can do a lot to change the climate in the many small ways that add up to a lot of impact on the bargaining power of workers.

The ability of the bottom 80 percent of the population to get a bigger share of the total pie – I think that if we get there, we may be surprised at just how successful we are at moving ourselves back, at least part of the way, to the kind of middle-class society that people like me grew up in. Thanks.

Question and Answer

Q: What do you think of the decisions of corporations to use their profits to purchase their own stock, and what effect do you think that has on income distribution?

KRUGMAN: I really haven't thought much at all about the corporations purchasing their own stock. Let me just say what it is a signal of. How many proposals for lower corporate tax rates have you seen that are based upon the assertion that it's all good because the money will be invested? In fact, what we are seeing is quite a lot of it being used for stock repurchases.

I'm not sure that I have a policy idea about what you should do about this, and whether we should somehow forbid it. To a certain extent, if a company really doesn't have good investment opportunities, you do want its profits to be recycled back into the capital market to be used elsewhere. But it's a telling sign that so much corporate profit is, in fact, not being used to finance real investment.

Q: I wanted to ask you a culture or a climate question about unions. Most of my colleagues are progressive in every way you can imagine. But when one talks about the possibility of unionizing a faculty or, in our case, an adjunct faculty organizing drive, they just back off. They are independent professionals, and unions are not for them.

I find it very difficult to talk about their being any value to unions to a group of professionals who claim to be very progressive and are, in most ways. What do you suggest that we do? You know the university environment better than I do – any suggestions?

KRUGMAN: I'm going to be self-referential, is what I'm going to be. Where I am, you can see very well why people like my colleagues would not want to be part of a union because it's an elite institution. Most of the people are, in their academic way, in a position of being like star executives who are able to strike a much better deal by threatening to leave than they are able to get as part of a union, which would be more equalizing.

You would have to actually deal politely with your colleagues instead of just knowing that your social citation index is so high that no one can touch you. What's funny though is that there are actually very few places and very few academics who are in that position. I think where it does vary is that ethos – a system that really does work to the advantage of a few elite people – becomes something that everybody buys into.

I'm not helping you much, because then you have to say to your colleagues that you are not actually a star faculty at Princeton. But there is, I think, some of that. Let me just say that as an economist, I've spent most of my life thinking about the evils of market power and distortions and unions. I now believe that those issues are a lot smaller than I thought.

But the real reason to be favorable to unions is that we did not realize until we lost the union movement just how crucial – and I know that's unfair, there are union people here – a counterweight that was, and a crucial piece of the political economy it really is. Now all of this is not an easy way to organize your department, but as Larry said, there are people here who actually know about this and not me. I am a sociologist also. My first graduate school advisor had his personal theory of the incarnation. He said he was brought up Indian and if you are a good economist, a virtuous economist, you are reborn as a physicist. And if you are an evil wicked economist, you are reborn as a sociologist.

Q: I was just going to compliment you on the side of saying I didn't hear the expression economic forces hardly ever in your presentation. I found that very refreshing that an economist was, by and large, using the socio-political explanations for the increasing economic inequality. And so I would like a non-sociological question bearing on, not so much inequality being driven by the socio-political forces, but I think would typically get referred to as the economy, especially say the structure of employment.

So that when you look at new jobs being created in the late 1990s – the projection of new jobs being created this decade and in the near future – that by and large you are seeing extreme bifurcation of the labor force, this massive shrinking of the middle class. And either it's a very subtle indication of the influence of socio-political forces, or … this is inherent in this thing called the new post-industrial service economy.

KRUGMAN: I mean I don't want to deny that there are economic forces, that the invisible hand is doing stuff and that there are probably some inherent aspects of the kinds of things that we are doing now that create a demand for a small number of superstar specialists and a large number of people with more menial tasks. But if you go back to the three decades of relatively even distribution where the really good jobs were, there is nothing inherent about working on an assembly line that makes that a high wage job.

It really was a question of organization, of the political climate, of the strength of unions that led to those being high wages jobs. And conversely, there is nothing about a lot of the service sector jobs – somebody working in an office or working at a terminal – that inherently makes that a lower paying job that somebody standing on an assembly line. It really is a social political change that has meant that the new assembly line jobs – the assembly line jobs of the new economy – are somehow not paying what the assembly lines of the old economy did.

A real quick follow-up on that. So much of their contemporary rhetoric is under the guise that we are still a dominant manufacturing society and we use manufacturing metaphors, examples, etc. Very little of their rhetoric addresses the notion of this radical change that has taken place. I would agree that in the city of Chicago, a laborer – strong back and a weak mind possibly – is making over $20 an hour with no better skills than a bus boy that is making $6.50 an hour, but that whole system hasn't tilted it anywhere in that direction.

No, we probably need to update our metaphors, definitely. We really need to understand that we are within a couple of years of having more people working in healthcare than in manufacturing. Healthcare combines a few very highly paid jobs and a lot of very low-paid jobs, and it doesn't have to be that way.

Q: I am just curious of what you think about these discussions now that are looking at the divergence between productivity growth and the wage and income growth. The administration's argument is that it's going to be catching up over time. But I am curious as to what you think of that, about those arguments and about that more generally as an ongoing issue.

KRUGMAN: Yes, we've had a few months of real wage increases and everybody is saying that the problem is over. The real wage of non-supervisory workers – now with everyone declaring victory – is now back up to about what it was in the summer of 2003. So we haven't actually made any progress over the past four years. What happened is that there was probably some underlying growth from labor demand which was masked by high gasoline prices and the mask fell away, so we got some recovery.

But overall, I think if you did it since inauguration day in 2001, real wages have risen at slightly over half a percent a year. In the '90s, although there was clearly more significant real wage growth than we've seen in the – still don't have a name for this decade – naughties, it is still pretty disappointing. The fact of the matter is that you just don't see anything like full sharing of productivity growth. There are technical issues.

The productivity growth that we calculate really should be deflated by the same thing that we deflate real wages by and it's not as big as it looks in many of the comparisons, and so on down the line. But when all is said and done, the fact of the matter is that we really still have very little share of the growth. Just to come back, we're not sure whether the typical worker is better off significantly now than in 1973. Just think of all the things that we didn't have in 1973.

Container ice shipping had barely gotten started. We didn't have fax machines. Of course we didn't have the Internet. We didn't have so many things. How can it be that we've had all of that progress and at best a small ambiguous improvement in the standard of living of ordinary workers?

Q: I was curious about your analysis on policy shift regarding technical and vocational education in this country. With the rise in proliferation of medical and technology programs that are being fostered by the market itself, we still do not seem to see a rise of more employees getting better wages and so forth through those programs either.

KRUGMAN: I don't know enough about the education. This comes back to, I guess, one of my favorite bugaboos here, which is the notion that education is the silver bullet that solves the problems. But the idea that if we just train people a bit more, we are going to see those wage gains doesn't seem to work. Even by the numbers, it shouldn't.

So I think that – I can't deal with the specifics, because I don't know enough. Just to come back – a lot of things have to work. Vocational training has not been leading to a big wage increase. If you look at it over a 25-year horizon or a 30-year horizon, the return to a college degree has increased a lot. If you are just looking since 2000, actually it hasn't been. Having a college degree basically has not led to any better performance than the typical worker.

It really is the insistence with which people cling to the story that what we are having is a return to education and the answer is to educate more people, when basically the data are screaming at you that that's, at best, a piece of a piece of the story. It is telling us more about what people don't want to talk about than telling us about what is actually happening in the economy.

Q: There is a lot of discussion about a shift in tone about the debate on globalization over the last 10 years. A lot of discussion now is about, let's acknowledge the costs and let's deal with them. And the costs are always described in terms of there's some older manufacturing dislocated workers, so let's just help them and maybe give some health insurance for a little while. But it seems to ignore some of the basic economics that people seem unwilling to talk about, which is that globalization has a real impact on the wages of a broad group of people. I wish that you could address that, because I think one point of agreement between those people who might favor a lot more globalization or not is that we ought to be able to acknowledge what the real impact is on the vast majority. I think that's actually a very big argument for the social insurance that you favor.

KRUGMAN: Okay, let me do my globalization sermon. Let me give you the 25-word version of the pro-globalization sermon. It's not about the United States, and it's not about the advanced countries. It's about the developing countries where access, the ability to export these labor intensive products has been, for some countries, the key ingredient in economic success.

Much as we may get unnerved, the fact of the matter is there is Chinese progress, that's hundreds of millions of people getting from abject poverty up to something better, and countries that are just keeping their head above water – Bangladesh. God help us if Bangladesh loses its ability to export cheap apparel, which you can only do by being able to export on the basis of low wages. The frank acknowledgement on our side is yes, it does aggravate income inequality.

We can discuss how much and I'll tell you. It's kind of interesting, actually. But there were a lot of studies of the impact of trade on inequality up through the late '90s. There haven't been any comprehensive ones since then, which is kind of odd. My back of the envelope says that U.S. trade with developing countries is as if we had an immigration of five million apparel workers who are low-skilled, low-income, definitely pushing down and an immigration of two million aerospace workers.

So if you want to think about that, it's as if we had a significant shift in the skill mix in our economy, which has got to have a significant impact on income distribution. You can quite easily get a number of five percent or more on the high school/college wage differential, given current numbers, and that is significant. That is up there and it's not the whole story, but it's significant.

What I would say is that it's really an argument, not for protectionism, which has all kinds of nasty global consequences, but it is an argument for stronger social insurance and bigger EITC and all of these things that are really important. So no, I definitely am not into denialist school on this. There are adverse income distribution effects of trade in manufactured goods with the Third World. The question ought to be, what do you do about it without causing enormous harm to people who are even worse off than the worst off in the United States?

Q: Will you give us your view of the relationship of the proposed guest worker programs to developments in the lower wage market?

KRUGMAN: I have a real political economy concern here. Again, I'm very much influenced by the work of my colleagues in the politics department, McCarty and Rosenthal. They had pretty convincing evidence that periods of large immigration have the effect of creating a large disenfranchised group of workers at the bottom of the workforce, either because they are not naturalized or because they are not fully integrated into the political system yet. That actually tends to push our politics rightward.

Now that's not the only issue involved, but it is something to be concerned about. What I don't like about permanent large guest worker programs is that they create a permanent disenfranchised working underclass. Permanently, the poorest 10 percent of American workers are going to be non voters, and I don't like the implications of that for our political system. I think it's unhealthy.

So I am very much in favor of amnesty and nationalization for those here. I think that just sheer humanity, as well as economic interests, means that you need to allow some continuing inflow, but I'm really leery of the guest worker idea.

Q: It seems that there is a lot of focus on the issue of the pay of people, corporate pay. I wonder how much of that is symbolic and what piece of the puzzle in terms of numbers does it play. I mean, if you really were to lower executive pay, what difference would that make in terms of numbers?

Q: This is a very different question. Apart from the impact on income distribution, do you think it matters whether the U.S. has an auto industry and a steel industry and an electronics industry? And if not, why not?

KRUGMAN: For the last one, I'm mostly ambivalent on that. But it's not clear to me that that is so much of a risk. I don't think that we are going to completely lose manufacturing, but that is probably a longer discussion. Let me say about the executive pay. There is fallacy of concreteness here. People look and say – well, if you add up the incomes of all of the Fortune 500 CEOs, that is not that big a share. But actually it's a much bigger group than that.

We are actually looking at, not just the CEOs, but the top five executives in each company; not just the Fortune 500, but a bunch of other companies, investment banks. If you look at some of the work that Rob Gordon has done at Northwestern, it's trying to figure out what is happening to compensation and the top .1 percent of the income distribution. Most of that group is probably executives of one form or another. It really is executive compensation that is driving the extraordinary gains of that group.

And that turns out to be, just by itself, a significant number. So I think if you were actually going to go through it, it's more. We are actually ending up by talking about at least several percent of aggregate compensation, in effect, being transferred from the bottom 99.9 percent to the top tenth of a percent because of this shift in bargaining of executive compensation. That is not trivial and it's probably got wider reach.

So just thinking that if we confiscated all of Bill Gates' income, no one would notice –

that is not the point. It's actually that the high profile cases are symptomatic of a much broader issue.

MISHEL: I just would add another factual component to that. The CEO pay from a broad group of companies used to represent around seven percent of all corporate profits and it now represents more than 14 percent or 15 percent. Anyway, that is a very large amount of the profits of society being commandeered by a small group.

Personally, I think that there is probably an effect on higher-wage employees way beyond the top five that we don't know how to measure. Anyway, I want to thank Paul for coming.

The New Social Contract

(Hour Two)

HOLLY FECHNER: Good morning and thank you all so much for coming. As Larry said, my name is Holly Fechner with Senator Kennedy, and welcome to our second panel. Before I introduce our speakers, I wanted to thank EPI, particularly Larry and Ross and all the other wonderful folks over there for the work that they do every day. It's so important to Senator Kennedy and other members up here, and I know to so many of you in the room who use their critical work.

One very important fact that they have helped us document over the years – and Senator Kennedy has been telling the story – is how workers have not been getting their fair share of economic growth in this economy. That is what our agenda is about, what Senator Kennedy's agenda is about, and what so many of us up here want to change and improve that. And we have a lot of great ideas, but we don't have all of the ideas. And that's why I think this next panel is very important, so that we can learn more about what should be on our agenda.

We've got two tremendous speakers and I've had the pleasure of working with both of them over the years. Our first speaker today is Beth Shulman. Beth has been a long-time activist for working families. She is a well-known author, she has traveled the country, I know, during the past couple of years speaking out for working families and in particular on the minimum wage ballot initiative that we saw in six states in this last election.

She is also the author of a wonderful book called *The Betrayal of Work: How Low Wage Jobs Fail 30 Million Americans*. Our next speaker is Tom Kochan and he is a professor at MIT and he is also the co-director of the Institute for Work and Employment Research. He is also the author of a wonderful book that just came out a couple of years ago called *Restoring the American Dream, a Working Family's Agenda for America*. So please help me welcome, first, Beth Shulman.

BETH SHULMAN: Good morning. First I would like to thank EPI for having this incredible forum to really bring a whole variety of ideas into the public debate about where this country should go. Tom's and my paper really deals with what happened to our social contract, what a new social contract should look like, and how we're going to get there.

You know, America has had kind of an implicit agreement – a social contract, the American Dream – that if you worked hard, you would be able to support yourself and your family with fair and increasing wages, basic benefits, time to be with your family, and retirement. That social contract is in tatters. At a time, as Paul said, of increased productivity and profitability, wages have stagnated for most Americans.

Benefits have declined and have been shifted in terms of the cost to everyday Americans. The benefits of our economy have gone to the top 10 percent of families, not everyday Americans. And what else has changed in our economy? Both mothers and fathers are now working, but our economy and our workplaces have not kept up with this. They are outdated, not responding to this revolutionary change of mothers now in the workplace.

In this global economy, jobs have become more insecure - people are losing jobs, jobs are being outsourced. America’s safety net hasn’t increased and improved. It’s really been decreased and eroded. The erosion of our middle class and the failure to respond to these is not the result of the invisible hand as those on the right love to talk about. This is not the result of the market. These are the results of choices that we have made as a society, choices which undermine workers every day.

Instead of instituting policies that would respond to these, we’ve had policies that basically benefit the few. At the same time, work has changed, who is working has changed, and how work works has changed. You know, it doesn’t have to be this way. We can make choices as our paper points out that will bring a new social contract that benefits all working Americans. We only have to look to the three generations after World War II.

During these decades, unions represented 35 percent of the private sector workforce.

Corporations had a role in which they thought that wealth should go to all stakeholders, including employees, and government saw itself as an active player in helping to create broadly shared prosperity and bringing the tools to Americans so that they could succeed in our economy. In the late 1970s and beginning 1980s, we saw a dramatic shift in these institutions. As a result, the American Dream began slipping away.

There was an attack on unions and workers who tried to organize unions. The role of corporations also changed and they saw themselves as merely and solely looking out for the interests of shareholders. Government saw itself as not helping the many, but benefiting the few. The result has been a steep decline in living standards for average Americans.

So how do we restore broadly shared prosperity? What basic principles of a social contract should we expect for those who get up every day and go to work? First, as we say in our paper, Americans who work hard should have a living wage, basic health and retirement security, and the tools they need to prosper in our new economy. Second, American workplaces and employment practices should support healthy and secure families rather than making workers have to chose between being responsible workers and responsible family members.

And three, America should provide a safety net that supports workers and families as they move across jobs and go in and out of the labor force as their life and job circumstances change. But how do we fulfill these principles? We must redefine the roles of our major institutions in America. As our paper points out, first, government unapologetically must play an active role in setting minimum standards for wages, health coverage and retirement, and unemployment. It must help provide the very necessary tools for workers to compete in this global economy.

The very role of government is to ensure broadly shared prosperity. Our paper outlines macro-economic policies that support good jobs, and it outlines the government's role in setting an adequate minimum wage with indexing and increasing the EITC. We need to acknowledge that the laissez-faire model of providing healthcare and retirement has failed miserably. More and more workers are going without employer-provided health insurance and pensions.

This paper recommends policies that ensure health coverage for all Americans, but done so in a way that recognizes that people are moving between jobs. Healthcare for America, developed by Jacob Hacker and presented at another EPI prosperity forum, is one good example. But we also need to recognize that our pension system has failed. More and more Americans do not have what it's going to take to retire with basic dignity. It is estimated that 30 percent of future retirees will have incomes of less than twice the poverty level. We must, one, strengthen Social Security and we need to come up with a different way of providing private pension plans. Today, tax credits go to the wealthiest of Americans. We need to ensure that everyone has a basic private pension plan and we need to ensure that those at the bottom have contributions to put in that are provided through government policy.

But one of the most fundamental changes in the last few decades is the fact that women are now in the workforce. Three-fifths of women aged 16 and over are in the paid labor force and 70 percent of mothers with children under sixteen years of age. Yet our outdated workforce policies do not respond to this reality. We are living in the make-believe. Almost half of America's workers don't have one paid sick day. Many others can't take off unpaid family leave because they don't have the resources to do so.

This paper recommends ways to update these workforce policies so families don't have to choose between being a good family member and a good worker. Our paper also recommends how necessary it is to provide quality childcare and early education and after-school programs so that parents can go to work and their children will have the necessary tools to succeed in the future in our society.

We suggest ways to reform the unemployment system that recognizes that people don't go back to the same job today. That once they lose their jobs, many of them are moving into very different kinds of jobs. We recognize the fact that so many people are not covered by our present system because they don't qualify under the act.

We need to change the role of corporations in today's society. We must close the gap that has built up in recent years between the private actions of corporations and their public responsibilities. Corporations should be accountable for how they act in our society. It is a myth that the sole role of corporations is to ensure the enhancement of shareholder value. No law requires it and in fact state laws state just the opposite. Corporations reap benefits in our society and we have an absolute right to hold them accountable for how they act and what the repercussions of their actions are in our society.

Some corporations are leading the way, but government policies need to encourage and support these firms and create a level playing field so they don't have to compete against those that are merely treating workers as things that they can dispose of at their will. In order to do this, our paper recommends that government contracts go to employers who provide good jobs with adequate wages, basic benefits and time off to be with one's family.

We must ensure that corporate boards are not just made up of cronies of CEOs, but have members that represent workers as well. We must set workforce standards that the good employers do not have to compete against the bottom dwellers. If we basically change the role of government and change the role of corporations, the third thing that we need to change is the role of unions in our society. We need to change their role and we need to change the right of workers to organize unions.

Unions are one of the most important tools for restoring the middle class. It is no accident with the seven or eight percent of America's private sector workers in unions today, the standard of living of millions of American workers has declined. When unions did represent 35 percent of the workforce during an incredible economic boom, we saw the largest middle class in America's history. Steel, auto, and other manufacturing jobs that were once dirty, poorly paid, and had few benefits became good jobs through unionization.

It always strikes me today when people talk about the good jobs in our economy, they act as if they somehow came down from the sky. The reality is that once, they were not good jobs. They became good jobs through unionization. The Economic Policy Institute says today that unions increased the wages of workers by 20 percent and in low-wage jobs by 27 percent. Union housekeepers in San Francisco, for example, are moving into the middle class. They have wages at $15 an hour and they have paid benefits, like healthcare and pension, and they have time to be with their family.

A housekeeper in another area of the country that doesn't have a union is still the working poor. The only difference is having a union. As Paul mentioned, it is not just those who are represented by unions that benefit. Those in industries where there is high union density, a lot of unions in that industry, the non-union workers have an advantage as well – their wages go up. But unions also bring an important political voice.

They talk to the dreams of hardworking Americans. They bring a voice for the concerns of how Americans are going to pay their rent, provide healthcare for themselves and their children, have a retirement when they retire, have time off with their family, and send their children to college. They also bring benefits such as healthcare and pensions. Eighty-six percent of unionized workers have healthcare benefits, compared to about half of non-union workers.

Unionized workers are five times more likely to have an employer-provided pension. So why aren't more workers organizing unions? If unions are so great, why aren't people right up there trying to get signed up? Out of the 58 million job holders, more than half say that they would have a union. They want a union if they were given the opportunity. But the sad reality in the United States is that they are never given that opportunity.

Workers who try to organize a union are fired, harassed, intimidated. As the Human Rights Watch stated in their report, workers who try to form and join trade unions to bargain with their employers were spied on, harassed, pressured, threatened, suspended, deported or otherwise victimized in reprisal for the exercise of the right of freedom of association. Workers lose their jobs in fully one quarter of the private sector union organizing campaigns.

Employer opposition doesn't stop there. More than one-third of the time, employers refuse to bargain with workers who have tried to organize a union. Our paper supports the Employee Free Choice Act as a good first step in trying to deal with this onslaught against workers' attempts to organize unions. For the first time, it would add some muscle to the weakling National Labor Relations Act.

But unions must also change. They must move beyond the simple the single employer model and organize workers across industry. They must increasingly join forces with worker centers, immigrant groups and others to make sure that they are representing all working Americans. But, as our paper finally points out, ultimately if we are going to ensure that a new social contract provides that hard working Americans can reach the middle class, we must define and redefine the role of government, corporations and unions that have been so distorted in the past few decades. We can make choices about what kind of America we want.

It is not about getting government off our backs, it is about getting government back on the side of working Americans. It is about ensuring that corporations that operate in our country act in a way that is consistent with our values and it is about ensuring that hard working Americans have a right to organize a union. We can create an America in which the American dream is not just a slogan, but a reality. We hope that our paper begins a conversation about how we can ensure that all working Americans really do have a shot at the American Dream and that we once again have broadly shared prosperity. Thank you very much.

KOCHAN: Beth did an outstanding job of laying out the basic arguments that we believe are possible to take up and possible to implement in our lifetime so that we can improve the standard of living, not only of ourselves, but to restore the essence of the American dream so that our children can improve on the standard of living that they experience growing up.

The fact that 60 percent of Americans today no longer believe that that is likely for their children should be a clear signal to all of us that it is in fact time, as Paul Krugman said, to get serious about these issues and to do something about it. What I'm going to do for the few minutes that we have available to talk about these issues is to build on what Beth said and talk specifically about what the new roles of government, business and labor are, and what we might do to implement the broad principles that Beth articulated so clearly and so powerfully.

I won't go into all of the details in the paper. I'll make two broad points about the role of government and then about corporations and about the role of labor unions in our society and in our economy. But what our paper really does is lay out an agenda. As Paul Krugman said, it's not by magic that we got a social contract after the 1930s, in World War II and beyond. It's that we put in place the institutions and we stayed with those institutions and continued to manage them effectively for 30 years that maintained that social contract.

We can now start to do the same thing for ourselves and for our children. So let me talk specifically about the new role for government. There are two key roles that government must play if we are to make progress; that is, to restore its role of creating minimum standards on a number of social insurance issues that are so critical to working families today. And then secondly, and perhaps even more importantly, it's to provide all of us as working Americans with the tools needed to prosper in the economy as we find it today.

Where do we start with the minimum standards? Let's start with, as Beth said, the workforce as we find it today. Men and women, mothers and fathers, in the labor force working to balance both their work responsibilities and their home and community responsibilities. It is time to overcome the embarrassment of being one of the last democratic countries in the world to address the issue of paid family leave and paid sick leave. So we have ideas and bills in Congress and Senator Kennedy has a paid sick leave bill.

There are bills around to address the issue of family care. There are efforts at the state level in California, some proposals in many other states, to address these issues. We know how to build a paid family leave and a paid sick leave policy that nicely dovetails with what some of the leading private employers are doing, and it's time to get on with that issue.

But it's also time to go beyond the minimum standards on these kinds of issues and put in place the kinds of cooperative and consultative approaches that we find in Britain, which gets employers and workers and supervisors talking about what needs to be addressed, asking for flexibility at the workplace, and getting a positive response.

So if we are going to deal with the families and the work arrangements as we find them today, then it's time to put the right kind of policy in place to address that issue. You have already heard talk about the minimum wage and the earned income tax credit. Well, we are making progress thanks to a lot of hard work going on in this building and in the halls of Congress.

I'm confident that we will improve the minimum wage. It's time to index that minimum wage at a level that links it to the median wage in our workforce, so we don't have to come back every few years or every decade, as it turns out to be, to address that issue. Combine it with the earned income tax credit so that working families can move back into the middle class and outside of poverty.

Obviously in a global economy, where we need to worry about minimum standards is in this area of trade. Here we have this complex question of how do we help develop the world economy as we develop the domestic economy. It is time to put labor standards directly into our trade agreements bilaterally and multi-laterally so that we can restore a relationship between the benefits of trade and growth and productivity, and the conditions under which workers around the world provide the goods and services to the rest of us.

There are other things that we can do around trade related to the unemployment insurance system. We have a very limited program on trade adjustment. It's time to expand that to deal with the displacement of all workers affected by globalization and I will come to that in a few minutes. So there are number of other areas of minimum standards that we won't discuss in detail here. But more important than even addressing minimum standards is getting us back on a trajectory where workers individually and collectively have the tools they need to prosper in the new economy.

This starts, as Beth said, with recognizing that workers today move across jobs more frequently and are not tied to an individual employer as much as in the past. Therefore, the uncertainty in the labor market has to be matched with portability of healthcare benefits and real portability of pension benefits – real pension benefits that build up to the kind of adequate reserves necessary for a secure retirement.

There are a number of ways in which we can do this, but the key principle is to slowly adapt our insurance system to address the flexibility and the portability necessary for the modern economy. Our unemployment insurance system was generated in a time when the classic unemployment expected was temporary, a response to cyclical changes in the labor market. Today, unemployment is very different. It's more a function of permanent loss of jobs, and it's more likely to be people who are moving in and out of the labor force, from part-time work to full-time work.

It's not surprising that given the changes, we only have about one-third – or 37 percent is the most recent estimate – of the people who are actually unemployed getting unemployment insurance benefits. The changes that are needed are to broaden the coverage, to change the criteria under which people are classified as unemployed and eligible. That would be from ten years with a specific employer to the number of hours they have contributed to the paid labor force more generally, regardless of when and where they have worked.

And then to provide the kind of unemployment insurance that helps them to make the adjustment to a new job linked to employment and training opportunities long enough as the economic evidence suggests is required to actually get a better-trained position and a better job. There are a number of other things that we need to do with our unemployment insurance, and it's simply a matter of recognizing that it's time to modernize this system to catch up with our changed labor force. The amount per worker in our economy that is allocated for employment and training – let's start to reallocate those dollars to use them effectively and then let's finally invest at a level that is necessary.

I will come to the final tool that I think is important, and that is our labor policy. To give workers the actual ability to organize and to prosper in the economy and by joining a union that is responsive to them in a moment when I talk about the role of unions.

But let me turn briefly to the corporation. Beth said it so nicely – it's time that we have corporations where we hold them accountable for matching the private interests to the national public interest, which all of our institutions in society are expected to contribute. We have learned over the years that it is possible to have high performance in our firms, high profitability, high productivity, and to create good jobs.

It's time that we build on that evidence and make sure that we support those firms that are trying to do the right thing and take the high road by investing in their workforce.

And that is by having flexible work systems and teams that work together to create continuous improvement, and by respecting labor and playing a role in labor management partnerships, which we know can improve productivity and quality better than standard labor relations and better than the non-union sector.

The evidence has been accumulated in industries from the automobile industry to the healthcare industry to the airline industry and lots of manufacturing service industries in between. What has not happened is we have not had a government policy that has supported those high-road employers by holding accountable all firms within the industry to meet basic labor standards, both here and abroad, by holding them accountable to move in a direction of supporting this high-road strategy.

If we learn from this experience that we have seen now in about 20 or so industries, where the Sloan Foundation has supported research and work with industry, with labor, and with the university centers to spread the knowledge of what it takes to build these high road systems. If we now match that with a government commitment to make this the kind of strategy that allows us to be competitive with good jobs, we can make progress – it just requires the right kind of government leadership to work effectively to support those firms that are doing the right thing.

In addition, we need to make sure that in addition to providing a carrot, we have the adequate stick. That means that we have to adequately enforce our Safety and Health Act, our National Labor Relations Act, and all of the other wage and hour legislation which are on the books, but not adequately enforced and allowing employers to compete on the low road without serious consequences. If we combine these two, I believe that we can make the kind of progress that we are looking for.

Finally, let me come to the role of that important institution called the American labor movement – unions and professional associations, worker advocacy groups, and all of the various groups in our society today that are working to try to support and provide workers with the means for getting ahead and supporting their families. I don’t need to recite all of the numbers that indicate that our labor law is an abysmal failure, and Beth cited some of them.

We have 33,000 workers every year now who are either reinstated or provided back pay for having their rights at work violated. We know that organizing under the National Labor Relations Act is almost a futile exercise. The most recent analysis done by one of our students at MIT linking the National Labor Relations Board and the federal mediation service data shows that it’s only about a 20 percent chance for any union that starts an organizing drive to actually get all of the way to a first contract.

If there are unfair labor practices in any stage of this campaign or the first contract process, that number gets cut in half. So illegal behavior on the part of employers where most of these unfair labor practices are being committed actually does seem to pay off in suppressing worker rights. Only 56 percent of those who finally actually win an election get a first contract, so it's not surprising that unions today have to find ways around the act.

They are taking valiant steps to organize workers in innovative ways, but it's not through the procedures that we established in our laws - we have to work around them. It's time to reform the law as a necessary first step so workers have an effective right to organize under the procedures prescribed in our national policy. That's why the Employee Free Choice Act is the right first step to take, but it's only the first step.

We need a labor policy in this country broadly defined that not only provides workers the right to organize, but also encourages the form of productive labor relations that we know is essential to a modern economy. That means that we should be promoting labor management partnerships, not undermining them as the National Labor Relations Board has recently done in its Kentucky River decision to eliminate the right of charge nurses to be covered under our law.

We are working with Kaiser Permanente in one of the most creative labor management partnerships that I have ever seen in this country. They have chosen to ignore the

National Labor Relations Act or National Labor Relations Board decision, because they know that a modern service economy, a healthcare organization, that really works has to be involved – workers working together cooperatively, sharing information, and labor and management working to improve the quality of service so that we get the kind of quality of care that all of us expect from our healthcare industry. That is the kind of labor policy that we need.

We need to expand the National Labor Relations Act and modify it in broader ways so it allows those people disenfranchised from coverage under the law – independent contractors, people in temporary kinds of assignments, and various other roles who are now excluded from the Act. And then finally, as data will be presented later in both Harley Shaiken's paper and in Dick Freeman's paper, we have known for over 30 years that the vast majority of American workers, over 70 percent, want a cooperative workplace.

But they want a voice where they are respected, where management responds cooperatively, and where we build the kind of modern 21st century work organization and workplace that is needed in our economy and that workers are ready to contribute to. It is time to update and modernize our labor policies to allow for those forms of participation and representation, but to do it in a way that respects workers' fundamental rights to collective bargaining and to do it to build on a solid collective bargaining base, not some sort of pseudo substitute for real, effective independent representation.

We know how to do this. We have learned through a lot of research. Everything that we talk about in this paper and what you are going to hear in this forum today is based on a lot of hard work by people around the country who have studied these issues, who have worked with labor and management, and who have gotten their hands dirty by finding out how can we make this labor relations and employment system adapt to the modern workforce, the modern economy and our modern families.

It's not for lack of knowledge. It's now time to get on with this task and take the steps that are needed. I am very encouraged by the fact that the American public is waking up after perhaps a Rip Van Winkle kind of 25-year sleep on these issues. They are beginning to say that our kids' future is at stake. That is getting the politicians' attention.

I believe, for the first time – that based on what we are already seeing from our members of Congress, from those that are beginning to campaign for the next presidential election – that the issues we are talking about here today will be front and center on our national agenda. It's time for us to now take the action and to build on what we have learned, both through research and through practice, to address these issues. I look forward to being involved in these issues as much as we can. Thank you very much.

FECHNER: Well, thank you so much to Tom and Beth for laying out the new social contract and really showing us what a full version of its contents might be. They have given us a lot to think about. We want to open it up for questions.

Question and Answer

Q: John Kenneth Galbraith said that people of advantage will risk their complete destruction rather than give up any part of their means. We are facing people of considerable advantage from the point of view of the labor movement. The social contract that we got in the ‘30s, ‘40s and ‘50s – part of the reason that we were able to get it is there was a specter of something worse behind it, which was communism and defined socialism. What I don’t understand now is why any corporation would concede to what we are asking for if we don’t have a threat, that I am aware of, to hold over them.

SHULMAN: There is the positive and the negative. First, there are corporations – I think of Costco and certainly we can name a whole variety in a variety of industries, like Cingular – that have realized that providing good benefits, providing good wages, providing training for their workers benefits them. So in their self interests, corporations have figured out that this is a good model to accept and to do.

The other piece of it is there are going to be corporations who will never agree. It seems to me that that is the role of organizing, that is the role of all of us in this room to ensure that our voice is heard from the local level to the state level to the national level. I don't think there has been any time in history where corporations or those in power who have just turned around and said this is great, we are going to go with it. They have done it, certainly, because there's been countervailing power pushing the other way, and I think that's the way it will be done now as well.

Q: The Council on Competitiveness issued a report called Competitive Index in 2006 which raised this concern about that it's great that we are increasing productivity and wealth, but what about sharing it more equitably? I think that this question of a social contract, which is not the most felicitous term, particularly for the corporate sector, is critical to that. But I do think, particularly following up on the last speaker, that there are a couple of opportunities that we may want to take advantage of. The first is that corporate America faces severe legacy costs with benefits. We all know the $1500 per car for General Motors. This is a real problem for them as they become globally competitive.

The second thing we know is that workers' tenure with a given employer is shrinking and therefore the relationship and commitment on the part of the employer to the worker is much shallower, and a lot of responsibility for learning has devolved upon the worker. Now in this town, everyone wants to talk about negotiations and bargaining and there is talk now of a grand bargain.

The outlines of a grand bargain would be, number one, to change our benefit system to make it much more like European countries, which is not workplace based – which you didn't talk about – and I would like to hear your views on that. Secondly, it has to do partly with something that you suggested, Tom, which is expanding TAA [Trade Adjustment Assistance] benefits in a much broader way, perhaps to win over people who are opposed to trade agreements by saying we're going to do a much more effective job of retraining people. Then there are things like wage insurance, etc.

So I'm curious about whether, in fact, this is too timid. Whether, in fact, what we really need is an entirely different system and whether perhaps the time has come more explicitly to discuss this grand bargain, which would not only necessarily get advocates from the labor movement, but perhaps from a broader –

KOCHAN: Sam, we agree with that. We didn't go into all of the details in the paper, but you will see when you read it that we talk about gradually moving from an employer-centric benefit system to one that is portable, and there are ways to do that. I think the kind of grand bargain that you mentioned that members of Congress are talking about does have value, not only for workers, but also for American business.

We can’t compete in a global economy, we can’t compete in a fair way with a level playing field if, in fact, as employers affirm that have long-tenured employees, we gradually experience a competitive disadvantage because we tend to have higher health care costs as we age. That is not the kind of society or economy that makes any sense. So we agree with that.

Q: Prior to World War II, garment workers in the United States earned more than autoworkers. The reason was a 30-year head start on unionizing. So history gives us the importance of unions, as well as current situations. I’m a consultant – lots of people are consultants, freelancers, independent contractors, leased employees, and temporary employees.

The new healthcare schemes that are being pushed, the Hacker scheme and related ones, would take care of that in a way by creating a big public pool. But what about your pension proposals and other proposals – how do we deal with that situation? And if we deal with it right, maybe we make it less attractive for employers to abuse us that way.

SHULMAN: There needs to be some kind of a universal mechanism to deal in the same way, I think, that healthcare does. I want to also say that this doesn’t let employers off the hook in terms of contributions; it just makes mechanisms that aren’t tied to the employer in terms of delivery of service.

So there is a variety of proposals out there with regard to retirement from universal 401 (k)s to certainly the kinds of mechanisms that Theresa [Ghilarducci] talked about, that are much more tied to government and Social Security, and a defined benefit at the end that we think is probably a better model. But again, I think that the important thing is that both Tom and I, as what was stated before, recognize the fact that we are going to have to move to a system that is not employer-generated, because that is just not the way Americans are working today. But on the other hand, I think it's important to understand also the responsibility of employers and employees and government in each of these processes.

KOCHAN: Let me just add one other thing, and not on the government role, but for freelancers or other various contractor, temporary employees. It's time to also change our pension rules so that organizations that represent you or that you join can have 401(k) plans and can provide more of the services. I believe that is part of the future of the labor movement, to find ways to represent people in a variety – however they find their work situation – and to provide more of those kinds of services.

As you probably know, the Freelancers' Union in New York City is a very innovative organization that is trying to do this. But there are some simple changes in our pension rules and tax laws that would make it more possible for those kinds of institutions to play a broader role as well.

Q: Where are you going to get the political will for this social contract that you are talking about, particularly when we are looking at our representatives who are basically upper- and middle-class people and when we also look at who votes for them?

When we look at the voting, it is basically done by a class of people who are in the upper middle class, so therefore, even though there are a lot of poor people out there and they do vote, we are looking at a majority of the voters then being in the upper- and middle-class and the representatives being in that same class. So where is the political will going to come from to actually bring about the social contract that you are talking about?

And the second part of my question is, when we are talking about unions, we are looking at business people saying – see, look what happened. So how do you get around those kinds of issues?

SHULMAN: I tend to be the eternal optimist, but I think one of the greatest examples of just a grass roots movement is on the minimum wage. There are now 28 states that have a higher minimum wage than the federal minimum. The movement here in terms of increasing the minimum wage is a great example, I think, of grassroots movements that really made a difference.

I think the other thing is that I think we're at a time in history that the issues that we are talking about are not just at the lower end. We are at a time where middle-income Americans and even those above are facing some of the same squeezes that the lower end has faced for years.

So that I think we have a unique opportunity right now politically to bring all of those forces together, and I think that we saw some of that in the last election, to move on issues like paid sick days with the Healthy Families Act. We are seeing again, it's not just low wage workers that are facing these issues, it's workers and families across the board that are facing a problem with regard to the cost of healthcare and the elimination of many of their pensions.

So I really see a unique opportunity now with good grassroots movements to really bring these issues up into the mainstream as we are seeing now in terms of the political agenda. With regard to your other issue, I just always say that with regard to the manufacturing sector, workers would have been in far worse shape if they hadn't had unions.

If you look at what is happening today in the service sector, look at janitorial jobs, look at healthcare jobs, look at nurses' aids, look at hotel workers and see the difference that unions have made in moving these jobs into the middle class. It's the greatest evidence with regard to what unions do in terms of really bringing the American dream to workers.

Q: This question is going to flip things around. The Costcos, the Harley-Davidsons, and the Kaisers are the exception. What practical measures would you propose to a congressional crowd, which is where we are, to basically strongarm the corporate side into returning to the proposed social contract?

Q: My question is regarding the feminization of poverty. It seems, though, that you didn't directly correlate in your paper, but as women entered the workforce en masse in the '70s, that is when we started to see the unraveling of the former social contract that we had as far as in terms of benefits and salaries and wages and so forth. However, unions, while we pose that as an answer, historically excluded women and it was a really long time before women were actually accepted in unions and actually became labor leaders themselves.

What we see now with the feminization of poverty, women are relegated into occupations that are pink collar, that have historically been women's occupations and where there has been very little union organizing based on that. I was wondering if you could speak towards the relationship of that and talk about that.

KOCHAN: Let me take up the first issue specifically and I've got one word on the second one, but Beth is going to speak to that more directly. On the first issue of what can we practically do to encourage and support those firms, whether it's Kaiser or Costco or Harley-Davidson organizations or others, we have learned from the private sector work that if you bring researchers together to document the effects of high performance systems and show that they have positive effects for the firm and for the workforce, and then you work to help to spread that evidence across an industry, you begin to get the right kind of diffusion of knowledge. What you don't always get then are enough firms to really move in the right direction – that is where government policy now can play a role.

Unlike the past, you can't push these from the top down when industry isn't ready, when labor isn't ready. I can tell you that industry leaders and labor leaders today are ready to take up these issues, but they need a supportive government policy that says we're going to vigorously – and I mean vigorously – enforce our labor laws and standards on the recalcitrant employers that are not trying to compete on the basis of investing in their employees and so on.

And at the same time, we're going to provide then supports for those that are moving in that direction. We are going to provide more education and training tax credits for those that are investing in their workforce. We are going to encourage the kind of labor and management joint funds on training and development. We are going to support labor management partnerships.

We are going to make sure that the climate of labor policy from the NLRB [National Labor Relations Board] to the FMCS [Federal Mediation and Conciliation Service] to the Department of Labor to the President of the United States is one that makes it very clear this is the direction we are going to go, so we can have both a competitive economy and good jobs and respect for worker rights. Now if you start to do that, I believe we will get more and more employers on board if you then tie that to the grand bargain that was mentioned earlier by Sam and that many people in the halls of Congress are talking about.

So that we relieve the kind of healthcare burden from those employers who are trying to do the right thing, and spread those costs evenly across the economy and across firms that are competing, I believe we will tip the balance in the favor of the high road. So it's both a carrot and a stick policy, but it takes a firm commitment to working on these issues. Beth is going to speak to the feminization issue, but I just want to make one point around the role of unions.

Unions need to change dramatically – and I mean dramatically – if they are going to attract and retain the kind of broad cross-section of the workforce, and particularly women who move in and out of the workforce. It's time for unions to move to a lifetime kind of organizing model where they make a commitment to representing people, to organizing and recruiting people, men and women, at the earliest stages of their careers and then stay with them throughout their careers and provide the hand-offs as they move from job to job or union jurisdiction to union jurisdiction.

Provide the services needed to really speak to the issues of the modern mobile labor force. We see some unions moving in that direction and I believe that that will start to gain momentum if we create the kind of environment where labor is seen as part of the solution rather than separated off as either a special interest or special politics or part of the problem.

SHULMAN: Absolutely unions – and I can say it, because I used to be a vice-president of a labor union – had a checkered history with regard to women and minorities. I think the important thing is we are moving past that. You now have more than 50 percent of union members are women and I think more importantly, if you look at a lot of the occupations that were traditionally occupied by women, many of those are finally being organized.

But I think it's important also in terms of ensuring that women aren't stuck at the bottom, that we ensure that women have the basic workforce things that they need to ensure that they can stay in the workforce, as well as take care of their families. Women end up taking the lowest wage jobs because many of the middle-income jobs don't have the flexibility that they need and don't have the kind of time off that they need.

So they end up having to take low-wage jobs that end up being the jobs with the least amount of benefits, the least wages, and that ends up kind of a double bind. So I think on the one hand unions need to reach out certainly more towards women I think as they are trying to do in terms of the organizing efforts, but also we need to ensure that the workplace itself is reformed so that women have options in terms of what kinds of jobs that they take.

Unions, the Economy, and Employee Free Choice

(Hour Three)

MARK LEVINSON: This session is on unions, the economy and employee free choice. Workers in the United States in the year 2007 do not have an effective right to organize unions. It is an international embarrassment that our laws do not comply with the most basic international standards.

It's a moral outrage that these same laws violate basic tenets of American democracy. It's a political constraint on developing a social movement for a more just society. It is bad for the economy, and a major source of inefficiency and inequality. No one has made these series of interconnected arguments on behalf of unions more clearly, more passionately, more knowledgeably, more persuasively than our next speaker, Harley Shaiken.

Harley has written widely on unions, globalization, economic development. He is the class of 1930 professor at the Graduate School of Education and Department of Geography at the University of California Berkeley and we are honored to have him here.

SHAIKEN: Thank you and I am very honored to be here. I would like to thank EPI for organizing the Agenda for Shared Prosperity and for the event today. I think it makes a key contribution to reframing a critical debate. What I am going to do today very briefly is talk about a central paradox. On the one hand, a record number of people indicate that they would join a union if they could.

The most recent Hart-Teeter poll shows close to 60 percent of non-management employees say that. Yet a record number of people on the low side are now members of labor unions. As we know in the private sector, it's 7.4 percent. How do we explain that growing gap between preference and reality? I think that one leading explanation that represents a pivotal part of that gap is that it has become in the United States today a risk rather than a right to join a labor union.

As Tom Kochan pointed out, in 2005, 31,000 workers in the United States were disciplined or even fired for their labor activity. This compares to roughly 1300 workers in 1958. That results in what amounts to a democracy deficit. As we've seen in the remarks earlier today, it squeezes the middle class. The word that comes to mind for so many Americans in the middle class today is not prosperity, it's insecurity. It weakens progressive politics.

Imagine struggling for a minimum wage or healthcare or any part of the social safety net without a labor movement at the core of that struggle. Most fundamentally, this democracy deficit undermines democracy itself. George P. Schultz, former Secretary of State, former Treasury secretary and former Secretary of Labor was unambiguous. As he put it – free societies and free trade unions go together. He elaborated on that by saying any healthy workplace needs a system of checks and balances.

Today we have lost that system for almost 93 percent of our private sector workplaces. But even that alarming number of a little over seven percent union density understates how severe the situation has become. If you go to South Carolina, the lowest union density in the country, in the private sector, 1.9 percent of the workforce are union members. That approaches a rounding error and I think it does reflect this larger institutional failure.

So what I would like to do today is look at three things – the great disconnect, the high road, and what an alternative might look like to the dysfunctional system of labor rights in place today. In the context of the great disconnect, which I believe is the period we are living through today, we are seeing rising prosperity in the abstract – certainly rising productivity but real wages stagnant or even declining. For 90 percent of the population, they have become observers rather than participants in a growing economy.

Historically and today, the most pivotal institution that forges and sustains a link between growing productivity and rising wages is the labor movement. If the labor movement weakens, that link that has harnessed wages to productivity erodes. That results in a squeeze in the middle class and the level of insecurity that has become so pervasive today. As Paul Krugman put it, one can debate the extent of the gap, but no one was debating that in the early 1970s in terms of a broadly shared prosperity that is clearly absent today.

Even Henry Paulson, when he became Treasury Secretary late last year or at the end of the summer, said amid this country's strong economic expansion, many Americans simply aren't feeling the benefits. As Larry Mishel's work has shown, since 2000, productivity has risen by 20 percent. Real wages have crept up somewhere between two and three percent over this period. A quarter of all workers today now work for poverty-level wages and a number that has gone up since 2001.

We know from the work of Robert Gordon and Ian Dubecker that the bottom 90 percent over a sustained period from 1966 onward have really either not shared in the productivity growth or have been totally knocked out of it. At the same time profits as a share of national income have risen from seven percent in 2001 to 12 percent in 2006. Now unions address this great disconnect in some very important ways. Clearly there is the union advantage – that is, the increased wages and benefits that union members achieve compared to non-union members in the society.

The BLS [Bureau of Labor Statistics] tells us it is 28 percent for wages and 44 percent for total compensation, but there are many other studies that more carefully adjust for differences of experience, region, and industry. They all show a significant union advantage from 15 percent onwards. But it is an advantage that disproportionately benefits those at the bottom and at the middle of the wage scale.

In other words, it allows entry into the middle class and it strengthens the middle class. It is a wage advantage and a benefit advantage that disproportionately benefits people of color which reduces, to some degree, the historic gaps based on race and ethnicity that have existed. But it goes beyond simply benefiting people at the low and middle of the wage – it really has impacted more broadly this great disconnect historically and served at periods when unions were much stronger to result in a more equal, more widely shared prosperity.

I would like to look at several dimensions of this. One is the bargaining strategy at a period when unions were very strong, the end of the Second World War. In a cold winter of 1945, there were unusually tough negotiations between the United Auto Workers and General Motors. This was reflecting throughout American manufacturing and really throughout the economy a sense of pent up wage demand from the Second World War.

So the UAW made a demand of General Motors to increase wages by 30 percent, which seems like a lot, but it is reflecting all the pent up demand of, in effect, the Depression and the Second World War. But there was another dimension to what was demanded that in some ways was even more significant, a 30 percent wage increase without raising the price of the car. The notion was that auto workers should benefit, and that the whole society ought to benefit from the improvements in productivity.

There was a 106-day strike. The UAW didn't really win by any means all that it had asked for. But it laid the basis for a proposal that Charles Wilson, the President of GM, soon to become Secretary of Defense in the Eisenhower administration, made in 1948. That was a wage bargain that would seek to benefit auto workers and spread the benefits of productivity to the broader society.

It had two components – first, an annual improvement factor not based on productivity in the industry among the most productive in the world in those years, but an annual productivity improvement that would reflect the broad tracking of productivity in the society. The notion was that auto workers would benefit and so would the consumer. The second component to that was the cost of living increase to ensure that time didn't erode these gains.

The union accepted that and secured it not simply for auto workers, but as a pattern that diffused throughout the American economy for much of the next 20 or 30 years. A pattern that was pivotal in ensuring this link between growing productivity and the health and well-being of the middle class. But as unions weakened, this grand bargain became far more difficult to sustain.

Not the only issue, by any means, but a pivotal dimension in the erosion of the middle class and in the economic impact that that has had on wages and benefits. But the second dimension of what unions have done, in addition to what they have done at the bargaining table, is they have been a central political force for legislation over much of the postwar period and the minimum wage on healthcare, on Social Security, on unemployment compensation.

That has benefited their own members, to be sure, but has laid a broader foundation for a progressive coalition and for that element of security for the middle class: a powerful impact of this, more broadly in terms of the union advantage as we know, not simply in terms of union members, but the way this diffuses to the non-union sector of the society. Simply put, it’s the union thread effect. If you don’t want a union, sophisticated employers have tended to track union wages and benefits.

Let me give a very specific, very recent example from a troubled industry, the auto industry. Until very recently, the major international auto makers operating in the U.S. tracked UAW wages negotiated at a bargaining table in Detroit. So this year, for example, Toyota wound up having a higher wage, though a smaller total compensation, than say Ford or General Motors workers, $30 an hour versus $27 an hour, because of that tracking – because as a union avoidance strategy, the company was paying high wages.

But with the crisis in the industry and with the broader crisis among unions, that is the declining density, what Toyota has decided to do is very different. A few weeks ago they announced their profits for last year, both for the final quarter of 2006 and for the total year and they were record profits. Well, what would a company want to do when they announce record profits? Well, it turns out that Toyota circulated an internal memo from very high levels in the company saying what we really have to do now is lower our wages significantly; that to date, we have tracked our competitors in the industry and that is no longer the appropriate benchmark and what we have to begin with is the wages paid in each of the states in which we operate. So with the current wage of $30, the benchmark for Kentucky where Toyota is headquartered and has much of its manufacturing, is $12.64 an hour.

But the memo continues – We need to look internationally at labor costs, which are 50 percent of U.S. costs in Japan and France, numbers that are arguable, but this is what the memo said. And then it goes on to say – and, by the way, we pay Mexico one-fifth of what the wages are in the United States. At a period of record profitability, there is a strategic memo to lower wages significantly. Does that sound like a strategy for securing a middle class? Does that sound like a direction that is going to link competitive success with social well-being for most Americans?

I think that an important dimension is linked to the notion of weakening of unions in the economy. That leads me to the second point that I would like to make, the high road to competitive success which Beth Shulman and Tom Kochan have recently spoken about with such eloquence and precision. For many analysts viewing the scene today, they would argue – sure, there is a union advantage. That is the problem, not the solution.

U.S. workers have become overpaid, a combination of employers asleep at the switch and greedy unions have priced the U.S. out of a global market. That's an interesting argument that I will address very briefly in a moment, but it has little to do with the 89 percent of the U.S. economy that is not involved in terms of employment that isn't involved in manufacturing. But even for the 11 percent involved in manufacturing, it is a very misleading argument.

Because it is based on an implied assumption that unions might be nice, but they cause lower productivity, higher costs and we can no longer afford them in a global economy. In fact, that is not what the evidence shows. If you look at the macro studies on productivity, most indicate that increased productivity and unionization can go hand in hand. A 1995 World Bank study, for example, concluded that unions can help raise workplace productivity and reduce workplace discrimination.

But the story really ultimately isn't told with these macro studies on either side of the productivity issue. It is really told by what can take place in individual workplaces and the key relationship between rising productivity, rising wages and the need of unions to secure that long-term. Of course, the most famous example of this takes place in a non-union setting, January 1914. A cold winter in Detroit and once again – I'm from Detroit, so I have a certain remembrance of cold winters – Henry Ford announces he is doubling the prevailing wage in the automobile industry to $5 a day.

Why? He had introduced a moving assembly line, productivity shot up, but so did his turnover. It was impossible to keep workers, even at double the prevailing wage. Now today, the argument might be that a CEO of a company would get up and say – well, our productivity is up, but this is an incredibly competitive industry and we're going to cut our prevailing wage in half. But he doubled it and then went on to experience in the next year declining costs of the car, which he cut because productivity had gone up so highly. Sales went way up and the profitability of the Ford Motor Company jumped by 20 percent.

An enlightened employer to be sure, but it took the emergence of the labor movement in mass production industries in the 1930s to cement that link, which by then had well eroded for economic and employer processes. Today, a good union management relationship can result in very high productivity, very strong competitiveness and high wages and that is the high road. As Beth and Tom mentioned, this is taking place in any number of leading firms and I would like to briefly touch on two in retailing, the example of Wal-Mart – not the high road – and Costco.

To make the comparison more accurate, it would be Sam's Club, the Wal-Mart affiliate that competes most directly in the same sector as Costco. Costco pays wages 40 percent above Wal-Mart wages on average, yet its profitability by virtually any measure is significantly higher than Sam's Club. If you look at, if you use as the metric the profitability per employee, Costco is almost double the profitability of Sam's Club – if you look at profitability per square foot, significantly higher.

How does this happen? Well, the CEO and founder of Costco puts it very directly. If you have a high-wage strategy, you can lower your costs. It almost echoes what Henry Ford said decades earlier when he said, in terms of the $5 day, that it's the finest cost-cutting move he ever made and a low-wage business is inherently an insecure business. One measure of what improves is turnover. At Sam's Club, 21 percent annually, and at Costco, six percent, and tens of millions of dollars are involved in turnover directly, in terms of training and indirectly in terms of the quality of the service, the productivity, etc.

So clearly there is this possibility, but there is also the danger because even an enlightened employer without the pressure of a countervailing check and balance, a union, is going to notice that at any given level of quality and productivity, you can cut wages and make more money. But what is not so very apparent at that moment, the next quarter it will absolutely show up that you erode the very basis of the quality and productivity in the first place, which rests on this sense of higher wages, stronger security and that elusive but pivotal and fundamental dignity on the job and one of the real essential contributions of trade unionism.

Another troubled industry, auto. Again, the notion is that the problem with the Big Three has been its wage and benefit package, which is unsustainable. Wages and benefits are important costs, but competitiveness always rests on more than wages and benefits. It rests on innovation and productivity and quality, all of which are related to the sense of security that is brought forth.

So if you look at a unionized plant, such as NUMMI, New United Motor Manufacturing Incorporated, the new Toyota General Motors partnership in Fremont, California, it's one of the most profitable and successful plants in the United States, yet it has one of the highest wage packages in the United States. If you look at issues of productivity in the auto industry, the most recent numbers from Harbor Consulting, which is used extensively in the industry, indicates of the three most productive plants in the United

States two of the three – number one and number two – are unionized.

If you look at the top 10 auto assembly plants in the United States in terms of productivity, six of the top ten are unionized. The problems of the domestic industry are very real, but they reflect severe managerial miscalculation in terms of the vehicles that were built, the markets they chose to compete in, and a failure to adjust to changing realities of oil prices, not wages and benefits. To sustain a high road requires more than a reform of the labor relations system – that is clear as Beth and Tom mentioned in the context of the social contract.

In manufacturing, in particular, it only becomes sustainable with minimally a trade policy that reflects issues of labor rights and environmental protections that is internationalist in scope, but establishes rules of the game that spur broadly shared development in developing economies and ensure a sustained prosperity in the middle class in the U.S. It requires public policy that deals with issues that directly impact competitiveness, such as labor costs, concerning legacy questions, principally pensions and healthcare.

That brings me to the final point, what are the alternatives? I think that we need to talk seriously about a high road, talk seriously about progressive politics more broadly. We need a labor movement that is strong and is vital. That requires workers exercising in practice the central right that they still have on the books to make an informed and free choice on whether or not they want a union.

The Wagner Act hailed as labor's Magna Carta at the time, still hailed as labor Magna Carta on the website of the Department of Labor, has really, for all practical purposes, been repealed in the workplace. It exists on the book, but 70 years of amendment, of judicial decision, of administrative decisions through the NLRB and other agencies have eroded that practice on the ground.

As we know, and I would like to just very briefly speak about the mechanism here. When 30 percent or more of workers in a workplace sign a petition for a union, the NLRB schedules an election within generally a month or two, sometimes much longer, but on average, it is about 44 days. That period becomes a period of intimidation because an employer that doesn't skirt the law has unlimited options from mandatory meetings to barring union representatives from the premises.

But for any employer that really wants to keep a union out, skirting the law has very, very minimal penalties and employers increasingly go down that route as the 31,000 number for 2005 in disciplines and firings. Or the study that indicates that one out of every five union organizers winds up being fired in representation campaigns. The Employee Free Choice Act at its core is, I think, simple and very straightforward.

The notion that a majority plus one in a workplace signing up would secure a union - the real penalties, the violations of labor law and in the insurance of getting to that first contract. What about the secret ballot election? In a democracy, we hold the secret ballot sacred appropriately, but the secret ballot is only as effective as the context in which the vote takes place. The context today is overwhelmingly coercive when it comes to this period between petition and when the vote takes place.

The authors of the Wagner Act from Senator Wagner on down all recognize that. When the Wagner Act was drafted, it was unambiguous that it meant to give workers the right to choose and to keep the employer out of the picture. In 1938 and 1939, over one third or close to one third of all recognitions of unions under the National Labor Relations Act took place without an election.

But we don't have to just look to the commentary when the National Labor Relations Act was passed, we can go back to the Federalist Papers. Alexander Hamilton was quite clear when he said that in the main, it will be found that a power over a man's support is a power over his will. That is, the economic power of the employer inherently creates an unbalanced situation.

But what exists today under the actual use of the NLRA in practice goes well beyond that. That said, what about two key issues concerning the Employee Free Choice Act?

The secrecy of the vote with the secret ballot compared to what majority sign-up would entail, and the issue of pressure on a worker in terms of making the decision outside of the secret ballot polling booth.

Let me start with the pressure issue. On any contested issue, there is going to be strong pressure on both sides. Yes, co-workers will pressure you to vote for or against a union. But that is pressure. Only the employer has the real power of *coercion*. No union member or organizer can determine whether or not you are going to be transferred to a new department, what your promotional possibilities are going to be, whether or not you are even going to have a job.

So yes, there is pressure, but on both sides, but coercion is what takes place today, not at the ballot box, necessarily, but in that intervening period. The second point, secrecy. Yes, in a secret ballot election under the NLRA today, the identity and vote of an individual worker is not public but the identity of the unit and vote of the unit is very public.

The famed case at Wal-Mart a decade or so ago in Texas, that three Wal-Mart units were meat cutters and voted for having a union – Wal-Mart, not knowing the identity of the individual worker, very visibly shut down their entire internal meat cutting operations. That, needless to say, exerted a chilling effect that is still with us.

But the notion of secrecy as being defining really is not what takes place here. Ultimately what happens is under these rules of the game, a secret ballot election in practice does not register so much the preference of informed and free choice as the fear and coercion that leads up to that election.

In that regard, under the NLRA today, these elections have more the character of a plebiscite under a dictatorship than an informed vote in a democracy. In Chile in 1982, there was a secret ballot election on whether or not to continue the dictatorship. By most accounts, the actual voting was honest. Very few would argue that it was representative of a free and informed choice.

The Employee Free Choice Act is hardly a magic solution to the problems of labor or to the addressing of a new social contract. It is, however, a realistic, important and modest next step that opens up democracy in the workplace and, as a result, can strengthen the middle class, result in a more vibrant coalition for progressive politics and ultimately strengthen the very nature of democracy itself. On those grounds it is important, in its own right, in restoring a right that was widely hailed and pivotal to any democratic society, but also results as a key step towards the kind of society that we would like to see. Thank you.

Question and Answer

Q: So if it's true that a unionized firm experiences higher productivity in the way you described, is it irrational for firms to be union busters and if it's not irrational, why? Does a high-road strategy entail certain risks that are greater than a low-road strategy, so maybe it is rational from a profit maximizing perspective to be union busting? Or is not necessarily a profit reason why it would be rational, but it is the power and flexibility that the employer wants to retain in the workplace?

SHAIKEN: Is a union avoidance strategy then rational or irrational? I would say there are two dimensions to that question. On one level, I think that there is ample evidence that a strong working relationship between a union and an employer can result in a more stable workplace, higher productivity and improved quality, and ultimately more innovation and a more competitive and successful firm.

Then why don't all employees see that if presented with the evidence? Because they are operating, in addition, under a different set of constraints which concern short-term profitability, share value, and, increasingly, executive compensation. At any given level of productivity, quality and competitiveness, you can make more money by lowering wages. So if you want to raise your profit margin next quarter, why not do that? it makes a lot of sense. So they are not being irrational, they are responding rationally to the wrong set of rules of the game.

The time horizon is central to that. And then there are other ideological issues in terms of control of the enterprise, etc. But I think there is no question one can make the case very convincingly that a union and an employer can work together to the mutual benefit of both, let alone the entire society.

But the reason that so many employers increasingly don't see that is the time horizons under which they are working, the rules of the game as to how performance is measured. I think that it winds up being shortsighted for the firm and damaging for the society.

Q: Kind of a devil's advocate position or statement, if you will, I think. Listening to most of the presentations this afternoon, especially yours for example, suggests two things. First, the American worker and American business are poorly informed – they really don't have the facts at their fingertips, otherwise they would embrace unionism. Secondly, on the issue of workers themselves as the dominant society, if we peel back the notion of let's inform the worker on the one hand and let's get rid of an oppressive organization that intimidates workers, then the problem is solved.

An observation – I've been teaching at a very large university in the city of Chicago for about 35 years, courses about work and the economy. Most of my students, from liberal arts and the college of commerce, are second and third generation blue collar background. Typically at the end of my classes, I will ask the students, I will go through economic inequality and a series of things and I will say – okay, labor unions, part of the problem or part of the solution? Two-thirds or more, every single time, say part of the problem.

I say that flies in the face in the notion that we've got all of these workers out here dying to join unions. I think there's another part of that onion that needs to be peeled back and I just don't think it's business' problem of oppressing workers, on the one hand, and the notion that if we freed up some of these issues, we would have them solved. I think it goes much deeper than that. We've got a culture that, by and large, is anti-union and not ready to embrace it.

SHAIKEN: I won't disagree with you fully. There are some points that you raised that I would take a little bit of issue with, but I think that you are raising an important point. I raised the Teeter-Hart poll 58 percent – this is a poll that took place in December. There are other polls that show much narrower margins. Gallup a number of years ago and I know Richard Freeman is going to speak about this next, said 32 percent.

I don't imagine that if the Employee Free Choice Act was passed tomorrow or the day after tomorrow, that 60 percent of the workforce would be unionized. But I think it will be more than it is today. It opens up an option. Many workers are anti-union. They have accepted a more prevalent ideology that the union is not a democratic right, it's a third party, which is the prevailing ideology of employers in this country today.

What I think the Employee Free Choice Act does is provide in a modest way additional options that could be very beneficial to workers and could, in effect, make the campaign in practice for a union a more evenly matched one. I think in that regard it represents a major step forward from where we are today. I don't think that unions are going to disappear, but if they decline much longer, they will cease to be an effective social and political force in the society. Then I think that has implications which go well beyond the economic questions that we've been talking about.

Q: You've been discussing this democracy deficit. In Latin America, we understand that it's part of what is called neo-liberal politics. So from my understanding of the discussion today and what you have been saying, essentially all these consequences are the result of neo-liberal politics applied to the United States.

In Latin America, we have seen in Argentina, Brazil, Venezuela, and Mexico, questions of a rebellion against these kinds of policies here. Do you see any signs of that same kind of rebellion in the United States and, if so, where would you point to as to where it's happening? Would it be this last election, would it be some of the polls, etc. – is there any parallel, and are we beginning to see the north following the south?

SHAIKEN: I think that we are seeing some important parallels, and I would give two. One is the most recent Congressional election where the level of unease and the way that the issues were raised, particularly in some key states such as Ohio, indicate the insecurity translating into something other than poll numbers. I have to say that even though I was liberal, I'm always a bit suspicious of polls alone.

Most Americans said that they wanted to drink new Coke when they were polled on it, but it didn't quite work out that way. That said, this recent election and the character of the upcoming presidential campaign, is beginning to embody many of these issues. On the ground, there is surprising and deep insecurity among so many millions of people, particularly those in the middle class or those who would have aspired to the middle class, not simply about whether or not they are going to have a job, but what happens to your pensions and your healthcare, and what happens if you can no longer work, etc.

So I think that vast insecurity is translating into unease which has an expression at the ballot box. I think in that regard, this is taking place today. That is why it is such an important, opportune moment to talk about the pivotal dimension of that, which is the role of the labor movement in any democracy and in this democracy and politically in this society right now. Thank you.

Do Workers Still Want Unions? Yes, More Than Ever

MISHEL: So we are now going to try something new and different. Our last speaker is Richard Freeman, who unfortunately, because of teaching responsibilities, couldn't be here. But he's going to be able to talk, we hope and expect, over this speakerphone on the cell phone here.

So just to introduce Richard, my good friend, he is a Harvard professor, leading researcher at the National Bureau of Economic Research and in my view the leading labor market economist in the country, if not the world. So Richard, let's try it.

RICHARD FREEMAN: Okay, let me discuss very briefly this briefing paper, because it's got one clear message, which surprised me when I looked at the data and the title is, "Do Workers Still Want Unions?" In 1995 and 1996, when the Clinton administration was concerned about labor management issues, we did this national survey which found that a large fraction of American workers wanted unions, but didn't have them. It was 32 percent of the non-union workers who said that they wanted unions and weren't able to get union representation.

Since then, the fraction who is unionized in the private sector has continued to fall. Since then, the various public opinion groups have taken some of the questions that I and my co-worker Joe Rogers used, and have asked them at various times to a national sample of workers or in some cases, it's a California sample of workers. The surprise when I looked at those data is that the fraction of workers who want unions has risen and it's risen fairly substantially.

For the first time ever in 2003 and 2005, we see over half of non-union workers say that they would like union representation. The numbers before that would have been around a third, so it's a very large increase. We were sufficiently conservative or not sure that this was true, and then we looked at the various other questions. The Gallup poll, for instance, has done questions for years of whether people approve or disapprove of unions and what we found there is an increase in the approval of unions.

You look at a whole host of questions, some of which are in the EPI briefing paper and some of which are in the 2006 version of our book where we updated things, that there has been an increase. As unionization has fallen in the U.S., more and more workers feel that they want that representation. Now you ask the question why they are not getting this representation and how does the U.S. compare to other countries?

Well, both in our survey and in the more recent surveys in the last 10 years, workers clearly are aware that getting a union is a big battle and workers want cooperative relations with management. They don't want to go to war with their employer any more than anyone wants to go to war with their spouse. It's not a good thing. So management opposition clearly deters a lot of union drives according to workers. I would say that if management opposition was not deterring things, management would not be spending a lot of resources opposing unions. So that is a big issue.

This market, if you think of it as a market, is not giving people what they want because one side of the market is opposed to it. Then we've done some work looking at the U.S. and the other five major Anglo-Saxon countries or Anglo-American countries, counting Ireland, the U.K., New Zealand and Australia. The first aspect is the U.S. has the largest fraction of people of any of these countries who want unions and cannot get them. And then there is a second interesting aspect.

In many of these countries, people have intermediate groups. In Britain, they are going to have the Works Councils. Ireland has Works Councils from the European Union. But the Australians and the New Zealand folk, and even the Canadians, have something that is weaker than a union and doesn't do collective bargaining, but represents workers. So the U.S., in that sense, sticks out as a sore thumb in both respects and obviously, I think that this is something that we should try to remedy and correct so that our workers have the same democratic rights and insights. That is all I will say.

MISHEL: So maybe one or two questions if people have and I can relate it to Richard.

We're sorry for the technical difficulties. There were special rules that wouldn't allow us to hook into their own phone system. Richard, there is a question about what are these other representative forms that you've talked about, and should they be part of our dialogue? And I guess in speaking about them, you should also differentiate them from the kind of committees that we sometimes hear about.

FREEMAN: The other forms, the strongest forms, are the European Works Councils because they are mandated by law. They are very explicit about what management must do to meet with the workers and discuss problems. They differ across European countries. They are local and workplace-based and you have an election so the local people elect their representatives to discuss strategies with management. That is the strongest form, because it's legally mandated.

MISHEL: I would add that over everything, collective bargaining actually obligates employers to talk about wages, hours and working conditions. Works councils deal with fundamental issues of investment and everything across the board. So in one way, it's actually a more radical concept and in other ways, it doesn't deal with some of the wage, hour and working condition issues that collective bargaining handles. Because in these countries that have them, they are handled otherwise.

FREEMAN: There are staff associations in the U.K. that do not do collective bargaining and are formed by workers, and management recognizes and discusses issues with them where you don't have a collective bargaining contract. And it goes up fairly high up the hierarchy. So you could have lower-level management be in an association that discusses issues with the employer.

MISHEL: I just want to commend everybody to read the paper. Richard, we're going to go now. Thank you very much and thank you all for coming.