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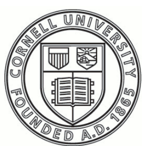

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# America Needs a Raise

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# America Needs a Raise



## Abstract

[Excerpt] America needs a raise, in the worst kind of way. While productivity, profits, executive pay and the stock market keep going up, working family incomes keep going down, widening the gap between the rich and the rest of us and creating a dangerous atmosphere of social and economic conflict. Workers are having to labor harder and longer just to keep even, and more and more family members are having to work in order to maintain living standards. Working families have little money to spend, they are loaded with debt and they have no time to spend with their children. Threatened by restructuring, downsizing, pension raids, privatization schemes and runaway plants, their anger is exceeded only by anxiety over keeping their jobs. They are disgusted with business and government and their disillusionment is straining the fabric of our society.



## Keywords

Key workplace documents, ILR, Catherwood, economic, AFL-CIO, Executive Council, productivity, profits, executive, pay, grassroots, minimum, income, wealth, workers, wage, union, trade



## Comments

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AFL-CIO

Department of Economic Research

*February 1996*

**AFL-CIO Executive Council Statement** February 19, 1996

# America Needs A Raise

America needs a raise, in the worst kind of way. While productivity, profits, executive pay and the stock market keep going up, working family incomes keep going down, widening the gap between the rich and the rest of us and creating a dangerous atmosphere of social and economic conflict.

Since 1979, real earnings for workers have declined 12 percent. During that same period, 97 percent of the increase in household incomes has gone to the richest 20 percent of all households, with middle income families and the poor left to scramble over the remaining three percent.

During the same period, productivity went up 24 percent and American workers should have been able to enjoy a substantial increase in buying power. Instead, the productivity was converted into increases in corporate profits (64 percent between 1989 and 1995) and in executive compensation (up 360 percent since 1980).

The result is an alarming maldistribution of wealth. The top 20 percent of households in our country now get half of the nation's total income and control 85 percent of all wealth. The rest — 80 percent of all households — split the other half of total income and share 15 percent of the nation's wealth, mainly our mortgaged homes.

Workers are having to labor harder and longer just to keep even, and more and more family members are having to work in order to maintain living standards. Working families have little money to spend, they are loaded with debt and they have no time to spend with their children. Threatened by restructuring, downsizing, pension raids, privatization schemes and runaway plants, their anger is exceeded only by anxiety over keeping their jobs. They are disgusted with business and government and their disillusionment is straining the fabric of our society.

More than 12 million workers at the bottom of the wage structure have lost hope altogether, victims of a federal minimum wage that in real terms is now 25 percent below its 1981 level.

With workers and their families hurting as never before, the labor movement must respond as never before. We must create a new and powerful voice for America's working families. Then we must use that voice powerfully and persuasively to restore respect for workers and the work we do through increased wages, more secure jobs, affordable healthcare and improved retirement income.

The AFL-CIO will respond first by sponsoring a series of town hall meetings across the country where workers can speak out publicly about their lives and their jobs and offer guidance toward solutions.

We will use these forums to transform individual concerns into a compelling national cause, sensitizing politicians and policy-makers as we mount a massive educational campaign to motivate unrepresented as well as represented workers.

Working with our allies and supporters, we'll take what we've learned and raise the issue of income inequality to a new level, using "America Needs a Raise" to:

- Build a powerful grassroots movement against cuts in federal, state and local programs working families depend upon and to push for a quick, big increase in the federal minimum wage;
- Create a strategic campaign center to give maximum support to 16 million workers and their unions as they attempt to pry long-overdue compensation increases from the tightened fists of multi-billion-dollar corporate giants;
- Persuade employers to practice corporate responsibility for their employees and the communities they serve as well as for their stockholders and executives;
- Energize a nationwide organizing campaign to bring union wages and benefits to millions of workers who need and deserve them.

Finally, we will use "America Needs a Raise" to evaluate the political candidates who want our support this fall and to help them campaign aggressively on this most basic concern of working families.

We will seek out and support candidates who pledge themselves to:

- Restore respect for workers and just rewards for work;
- Defend programs working families depend on, from Medicare and Medicaid, to education, college loans and environmental protections;
- Stop tax giveaways to big business and reverse job-destroying trade policies that benefit only multinational corporations;
- Preserve worker health and safety protections, as well as wage standards guaranteed by Davis-Bacon and the Service Contract Act;
- Fight to raise the minimum wage and to guarantee affordable, high-quality health care for everyone;
- Stand up for policies that protect the rights of workers to freely organize and join unions;
- Insist on job-creating low-interest rate policies instead of job-destroying high-interest rate policies from the Federal Reserve.

**"America Needs a Raise."** And through a reinvigorated labor movement, the AFL-CIO accepts the responsibility for delivering it.

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American workers need a raise. The evidence is in the numbers. Workers' real earnings have tumbled — 12 percent since 1979. Often this pay isn't enough to cover the basics — a home, education for children and health care, with enough left over for a decent retirement.

The average grocery clerk, health care worker, factory hand or teacher is struggling to make ends meet. Even those somewhat higher on the economic ladder are feeling the pinch.

But corporate chief executives, wealthy investors and Wall Street dealmakers are prospering as never before. Their incomes and wealth holdings are soaring even as those of everyone else are heading down.

If ordinary people had been able to boost their incomes like the CEOs of America's largest firms over the past 15 years, typical factory workers would now earn $70,000 per year. Minimum-wage workers would receive $30,000 per year.
But that didn't happen.

The children of middle America increasingly are falling below the status and income gained by their parents. Children return home after they finish school because their jobs don't pay enough for them to get on their feet. Young and well-educated workers often end up with jobs lacking benefits. Women and minorities fight added handicaps — prejudice and discrimination.

If pay were the only issue, it would be bad enough. But it isn't.

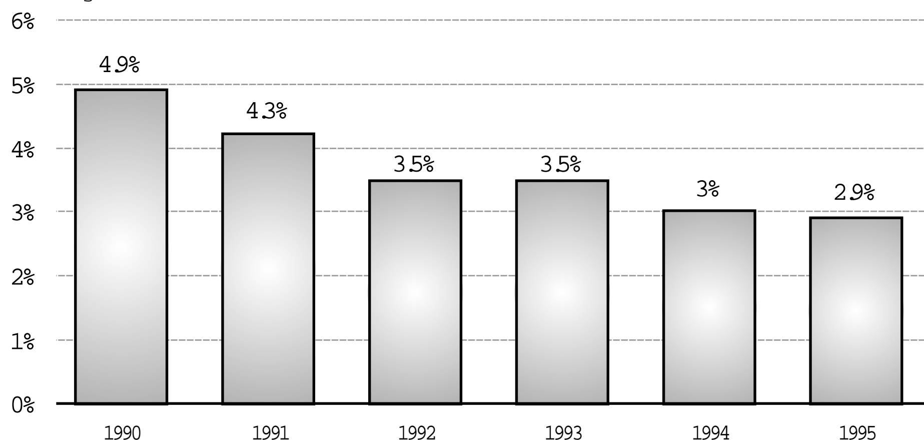
Workers are feeling threatened and fearful about their security. In today's topsy-turvy world, companies dump workers even as the economy booms and profits go through the roof. Displaced workers have only a one-in-four chance of equal or better pay after losing their jobs. More often, they end up jobless, out of the labor force, part time or at reduced pay.

Some people are worked unmercifully in forced overtime so that companies can fatten profits by not hiring. Others can't get enough hours as their employers cut corners by loading up on temps and part-timers. Many people have two low-paying jobs. They spend their off time shuttling back and forth between them.

The social compact that should exist between workers and management rings more hollow with each passing year. Worker productivity continues to rise, but CEOs and stockholders get the benefit.

Workers are expected to give their best effort on the job — even as their employers scheme to rob them of their pensions and health benefits, pit their wages

Chart 1-1



Note: Compensation costs include wages, salaries and benefit costs. Employment cost index change 12 months ended in December.
Source: Bureau of Economic Analysis

against prison workers in China and children in India, ship their jobs to Mexico, replace them with computers or contract out or privatize their jobs to shave expenses.

Union membership was once a passport to a middle-class life and a job with dignity. During the 1950s for example, workers made big income gains when union membership was widespread. Nonunion workers benefited, as well, as employers vied to match union pay scales. This helped propel U.S. workers to the highest standard of living in the world. But the union share of jobs has eroded, hobbling both union and nonunion workers alike.

The minimum wage no longer gives workers an economic floor. And social welfare and other benefit programs no longer can be counted on as a safety net for those who have jobs but cannot earn their way out of poverty.

The Republican takeover of Congress in 1994 has added to workers' troubles. Republicans in Congress have abandoned their traditional support for updating the minimum wage, while assaulting government and scapegoating public workers. Extremism so overwhelms logic that Republicans argued in 1995 that even though the sky was falling because of deficits, things weren't bad enough to stop $347 billion in tax breaks for the rich.

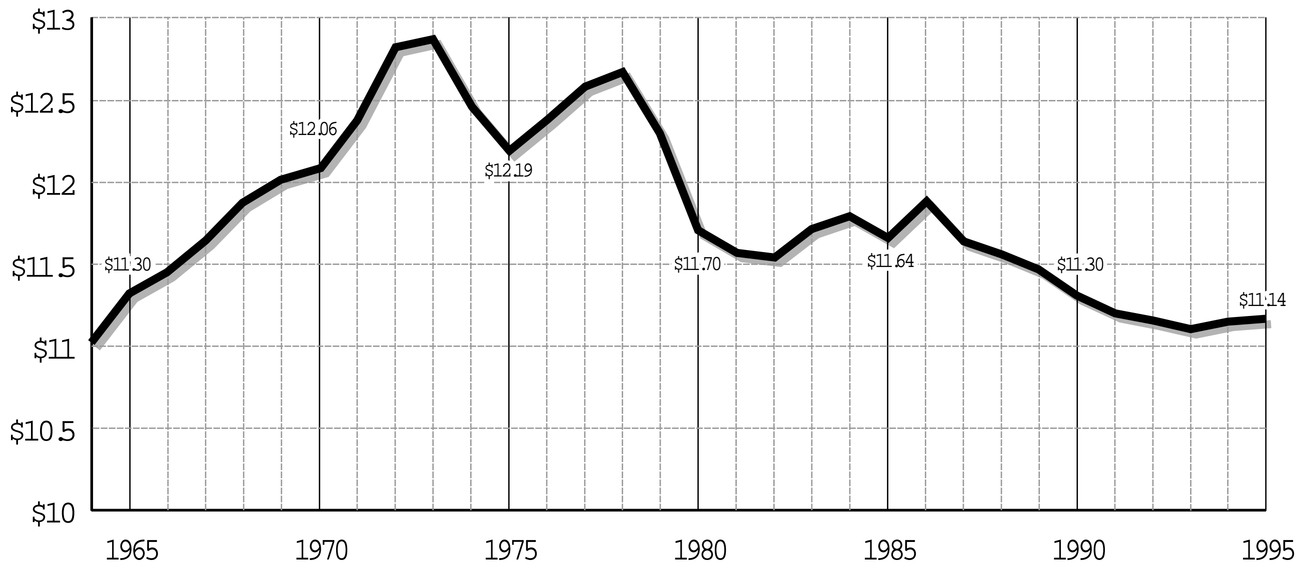
The Republican agenda seeks to undermine or repeal regulations important to workers, like the Occupational Safety and Health Act and other labor protections. At the same time, the Congress seeks to throttle such entitlement programs as Medicare and to starve social programs for infrastructure, education, training, housing and other areas. The fiscal agenda includes flat taxes to further skew incomes through tax policies that help big business and the well-off.

The statistical information documents the extent of workers' wage problems and the linked issues behind it.

Chart 1-2

## Hourly earnings decline erases past gains 1965-1995

Average hourly earnings, production/nonsupervisory workers (in 1994 dollars)




Source: Bureau of Labor Statistics

# The Growing Wage Gap

## Wages and Incomes are Down

The buying power of workers' hourly and weekly earnings has been going down for more than 20 years. Measured in constant-value dollars adjusted for inflation by the Consumer Price Index, American workers are worse off than they were in 1973.

Small wage increases from recession low points in 1993 gave little relief.

Compared with 1979, real wages for the ordinary wage-earner were down in 1995 (preliminary estimates) by 9 percent for hourly earnings and 12 percent for weekly earnings. They were even below the lows reached in the 1982 recession. Much of the wage drop has come from employment cutbacks in industries paying relatively high wages (such as manufacturing) along with a big expansion of jobs in low-wage retail and service.

Unfortunately, more education does not guarantee real wage gains, although more education does provide some protection against erosion of wage gains. For example, male high school dropouts lost 27 percent in real hourly wages between 1973 and 1993, but even college graduates lost 9 percent in this same period. Over the same time period, women high school dropouts lost 8 percent in real hourly wages, but women college graduates gained a small 1.7 percent.

### Family Incomes

Family income and family living standards have suffered as a result of the erosion of workers' real earnings.

With production and nonsupervisory workers accounting for more than 80 percent of the private nonfarm sector, the decline in their wages has necessarily impacted badly on family incomes. Census figures — covering all families at all income levels — showed no gain from 1979 to 1994 in median family income (expressed in 1994 dollars). In fact, there was actually a slight drop from $39,227 to $38,782 over this period.

The situation would have been much worse had it not been for working wives. Married couple families ex-

Chart 2-1

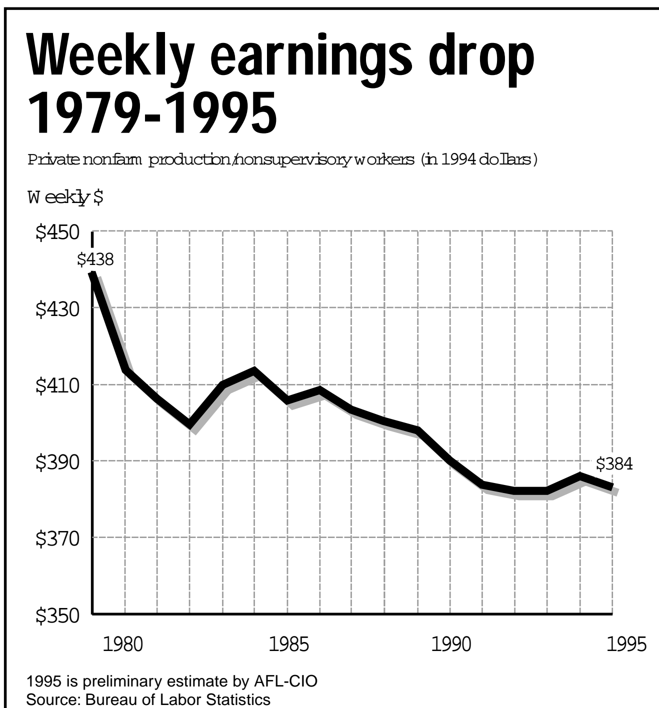


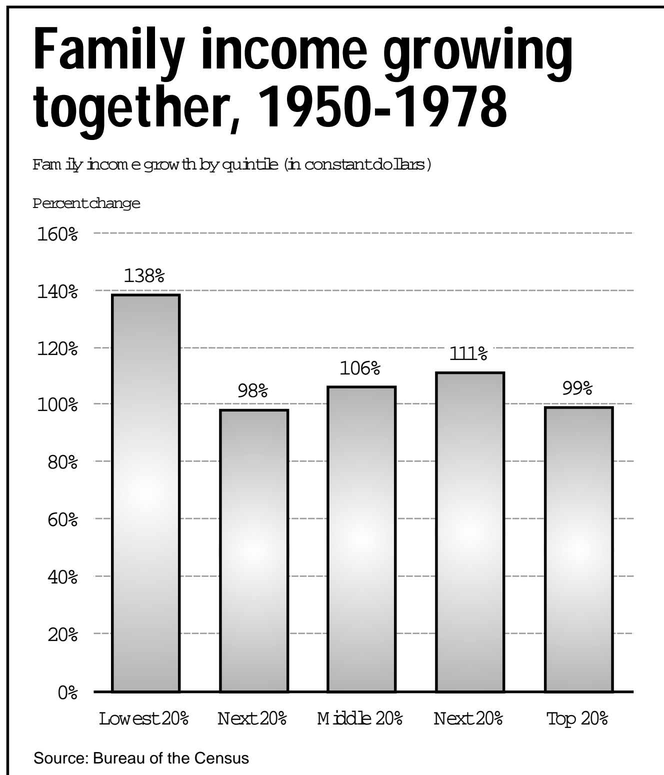

Chart 2-2

**Average weekly earnings by industry, 1979-1995**

| | 1979 | 1995 * | Change | Percent |
|---|---|---|---|---|
| Nonfarm industries | $438 | $384 | –$54 | –12% |
| Mining | $727 | $665 | –$62 | –9% |
| Construction | $683 | $565 | $118 | –17% |
| Manufacturing | $536 | $499 | –$37 | –7% |
| Transportation/Utilities | $648 | $547 | -$101 | –16% |
| Wholesale Trade | $493 | $461 | –$32 | –6% |
| Retail Trade | $277 | $216 | –$61 | –22% |
| Finance | $380 | $430 | + $50 | + 13% |
| Services | $349 | $360 | + $11 | + 3% |

*Preliminary estimate by AFL-CIO
Source: Bureau of Labor Statistics

Chart 2-3




perienced an increase of 5 percent in their incomes — but only because of working wives. Where the wife was in the labor force, incomes rose 7 percent. Where she was not in the labor force, there was a 12 percent drop.

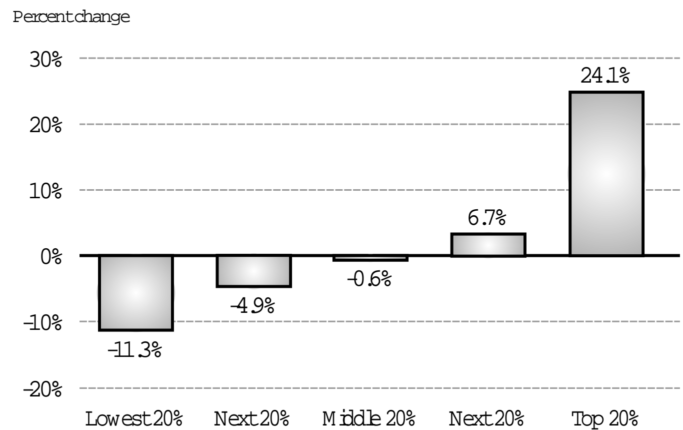
Families headed by men (no spouse) experienced a 25 percent drop, and families headed by women (no spouse) experienced an 8 percent drop.

In 1979, less than half of married couple families had a working wife (49 percent), but by 1994, working-wife families accounted for 61 percent of married couple families.

## Rising Inequality in Family Incomes

A huge income gap exists between rich families and the rest of us.

## Family income growing apart, 1979-1994




Source: Bureau of the Census

This widening gap between top family income receivers and those in middle- and low-income categories reached record levels in 1993 and was little abated in 1994.

From 1979 to 1994, the share of family income received by the bottom 20 percent of families declined from 5.3 percent to 4.2 percent, with an average income drop of 11.3 percent — from $11,700 in 1979 to $10,400 in 1994, measured in 1994 dollars. Families in the top 20 percent, on the other hand, increased their share from 42 percent in 1979 to 47 percent in 1994 — with an income increase of 24.1 percent (from $93,100 in 1979 to $115,600 in 1994). And the top 5 percent of income receivers started with 15.8 percent of total family income in 1979. This rose to 20.1 percent in 1994 —an average income increase of 40.7 percent (from $141,000 in 1979 to $198,300 in 1994).

In 1979, the top 5 percent of families received incomes averaging 12 times as much as families in the lowest 20 percent. In 1994, the average was 19 times as much.

# Women and Minorities Have Lower Pay

Women and minorities are particularly disadvantaged in achieving a decent standard of living.

Women are still paid on average only 72 cents for every dollar men earn for year-round, full-time workers.

The growing importance of women's pay in keeping families afloat has highlighted the lack of pay equity for women. The wages of women are key to household budgets, especially in families headed by women. In many families, it is necessary for both husbands and wives to work, so pay inequity is not only a women's issue, but a family issue as well.

Labor unions continue to attack sex and race discrimination wherever it exists — in pay, job titles, job assignments and classification procedures. Unionization has been effective in bringing women higher wages over the years, showing that the greatest pay equity protection is a union contract. Union women earn 37 percent more than nonunion women and 4 percent more than nonunion men. Union women earn 12 percent more than all workers, $527 vs. $479 per week.

African-Americans still lag behind whites in job opportunities and in pay levels. In 1994, black median weekly earnings stood at $371, about 80 percent of the $467 median for all workers. Black union workers had a distinct advantage over their nonunion counterparts, earning $503, compared with $348 for nonunion black workers, a 45 percent union advantage.

### Hispanic Earnings

Hispanic workers lagged behind whites and African-Americans in earnings in 1994. Hispanic median earnings of $354 represented about 70 percent of the $467 median earnings of all full-time wage and salary workers. But Hispanic union members had a distinct advantage over nonunion Hispanics, earning $499, compared with $311 for nonunion, a 60 percent advantage.

Chart 2-5

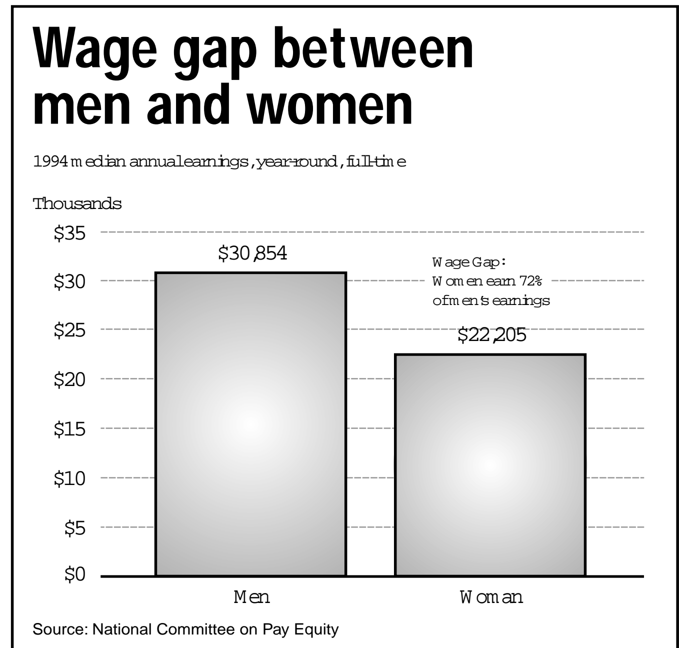
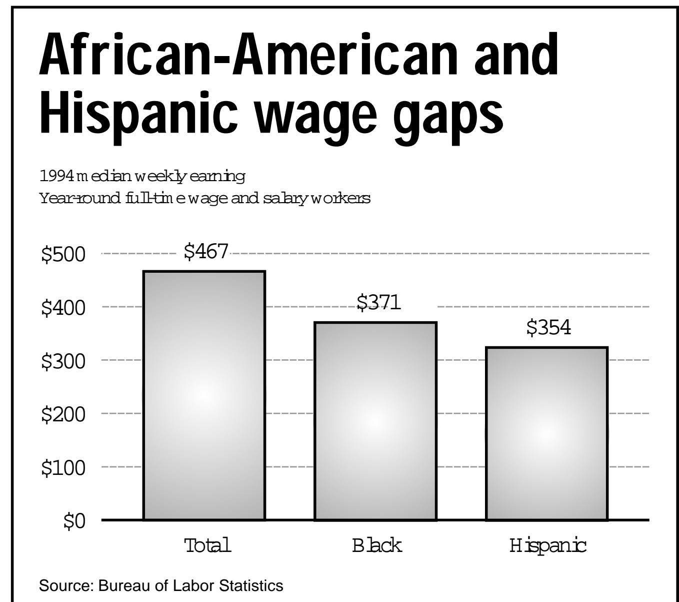



Chart 2-6



# Wealth: The Haves and Have Nots

Huge inequalities of wealth exist in America.

Wealth, which measures the value of assets, has always been more concentrated than income at the top, but inequality of wealth got even worse in the 1980s.

By the end of the 1980s, the share of wealth accruing to the top 1 percent of households reached a 60-year high — about 40 percent of all household wealth. The next 19 percent owned 46 percent. This left only 15 percent for the remaining 80 percent of households.

Household wealth or net worth is the value of what is owned less the value of what is owed — assets less debt. Financial wealth is where the big money is — principally stocks and bonds and real estate investments. Financial net worth — which excludes owner-occupied homes and their mortgages — is even more concentrated at the top than total wealth. The top 1 percent of financial wealth holders controlled 48 percent of wealth in 1989 and the next 19 percent owned 46 percent — leaving only 6 percent for the bottom 80 percent.

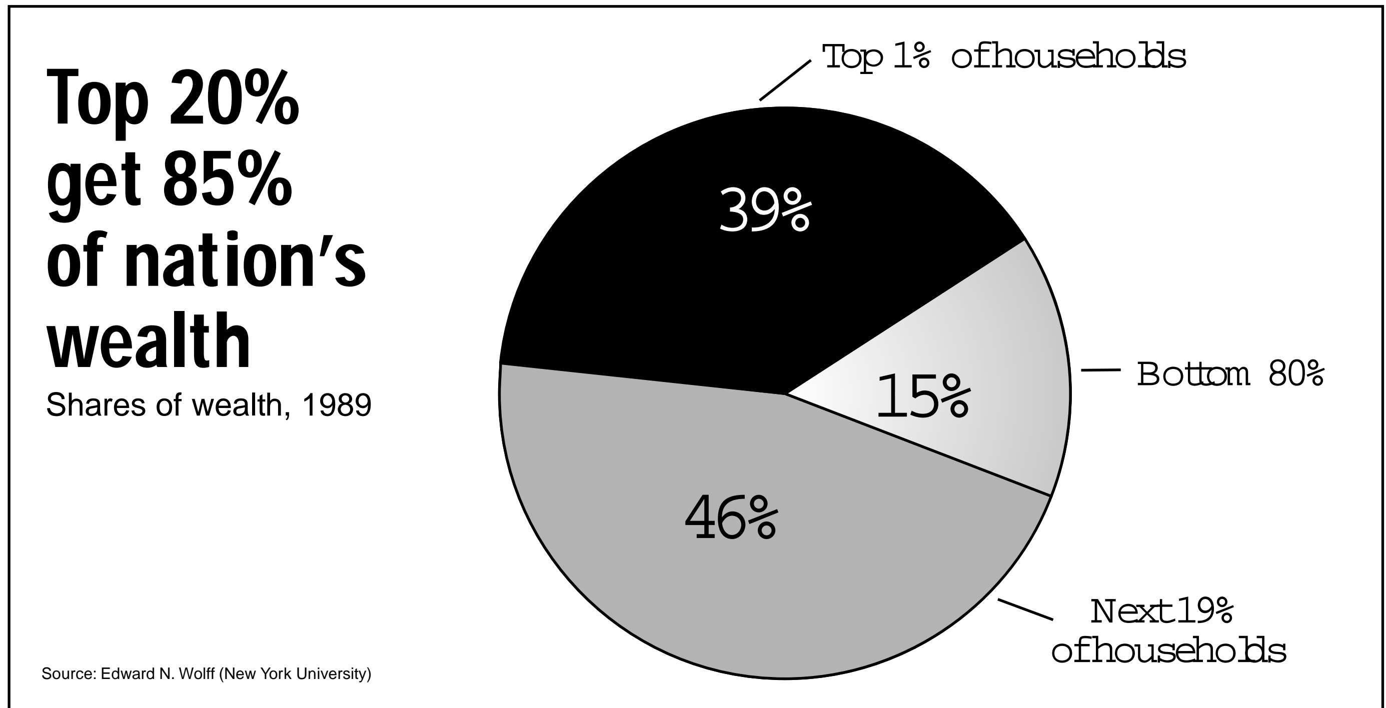
## The Rich Got Richer in the 1980s

The run-up of wealth for the richest was on the fast track in the 1980s. From 1983 to 1989, the top 1 percent garnered 62 percent of the increase in total wealth while the next 19 percent received 37 percent. This left the bottom 80 percent with only 1 percent of the gain. For the period 1989 to 1992, the top 1 percent are estimated to have reaped a whopping 68 percent of the overall gain — an alarming continuation of the trend into the 1990s.

In terms of financial wealth, the top 1 percent took 66 percent of the gain between 1983 and 1989, with 37 percent going to the next 19 percent. The bottom 80 percent thus went into the hole, with a loss of 3 percent.

The United States has now become the most unequal industrialized country in terms of wealth. The 39 percent share for the top 1 percent in the United States in 1989 compared with 26 percent in France, 25 percent in Canada, 18 percent in Great Britain and 16 percent in Sweden.

Chart 2-7



# Pay Lags Behind Rising Productivity

Workers have not gotten a fair share of the nation's rising productivity. This means workers' buying power lags behind the nation's ability to produce goods and services.

Productivity growth increased substantially in the 1990s. Higher productivity has lowered costs and boosted company revenues, but workers have not shared in the gains.

A company with improved productivity can make a number of choices that determine who benefits from the gain. If the company does not lower prices and holds down wages, all of the productivity gain will appear in higher profits.

Companies generally have not allowed wages to rise enough to enable workers to share in the benefits of increased productivity, as evident in government data on wages and income distribution.

Real wages of production and nonsupervisory workers, while still rising, began to lag productivity growth in the mid-1960s. The gap began to widen much more rapidly in the 1970s as real wages began to fall. From 1979 to 1994, real wages fell in 11 of 15 years, producing a total drop in real earnings of 9 percent. In the same period, productivity went up 20 percent, which should have enabled all American workers to enjoy a substantial boost in buying power.

In the first nine months of 1995, real wages showed no rise compared to the first nine months of 1994, because the 3 percent rise in wages was canceled out by a rise in prices of the same amount. Thus, wage earners did not receive any share of the 2.9 percent increase in productivity in the same period.

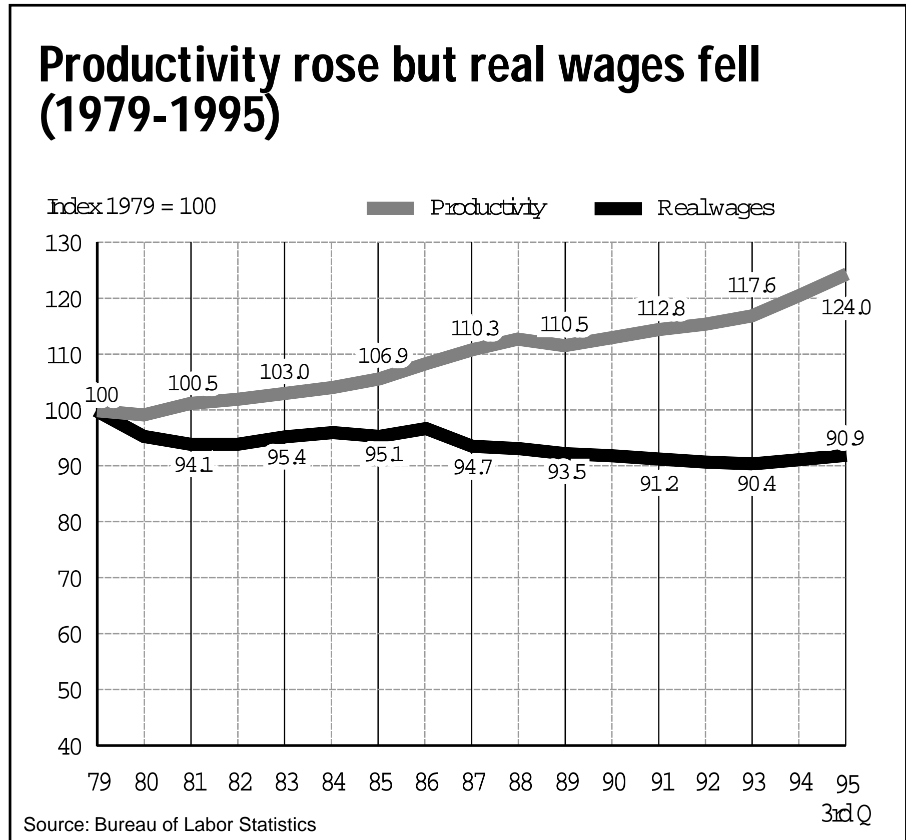
A great deal of catching up is needed to restore wages to the buying power of the past, and to the prior share that workers received of total returns. In any given year, wages must rise by the amount of prices plus the rise in productivity for workers to receive a fair share of that year's increased productivity. When wages lag behind this standard, profits, dividends and executive salaries rise much faster than wages.

If workers can bargain with management to raise wages by the amount of the productivity increase, in addition to the increase in prices, then wages and profits share equally, each rising by the amount of the productivity increase plus inflation. To the extent that companies lower prices, customers benefit from higher productivity as well.

There is nothing automatic to assure that the benefits of productivity are broadly and equitably distributed. Therefore, rising productivity presents the potential for trouble for the economy as well as the potential for progress.

This imbalance between productivity and wages played a role in the Depression of 1929 and in a number of subsequent recessions. As analysts have pointed out, much of the slowdown in the economy in late 1995 can be traced to this problem. Consumer buying was sluggish in late 1995, in large part because higher productivity means firms can produce more, but buying power has not kept pace.

Chart 2-8




Source: Bureau of Labor Statistics

## Corporate Profits Boom

While workers' real earnings are falling, an enormous corporate profit boom has been going on for four years.

In 1994, profits rose an astounding 40 percent, according to a *Business Week* survey, and soared an additional 20 percent in the first nine months of 1995. Corporations have boosted profits at an extraordinary pace due to sales gains in a better economy, higher productivity and continued price increases.

Wage earners have been left out of the prosperity of the 1990s. Wage increases have been canceled out by price increases, and the benefits of rising productivity have turned into booming profits and exorbitant executive salaries.

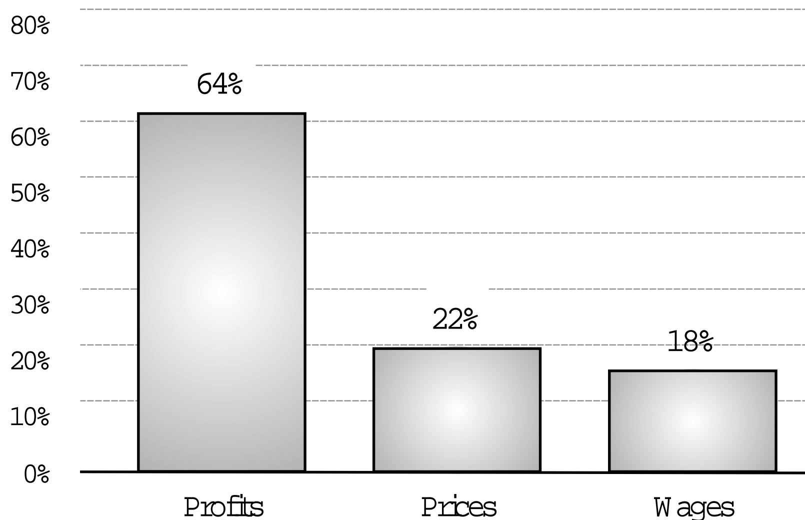
The rapid growth in profits with no growth in the buying power of workers is unique in the decades since World War II. While purchasing power growth commonly lags profits, the lag has not been so great for so long a period of time.

Dividends are up, and the value of corporate stocks has soared with the rise in profits. The result is an enormous gain in the income and wealth of the nation's wealthiest citizens. But corporations are still stingy when it comes to granting pay increases, except to very top corporate executives.

A common way to measure firm and industry profitability is to look at profit on stockholders' equity, which measures the percentage return on the money that stockholders have invested in the company. For the 900 corporations in the *Business Week* survey, the return on stockholders' equity rose to 17 percent in the first nine months of 1995, up from 10 percent in 1992 and the highest in 45 years.

Commerce Department data shows an extraordinary 22 percent increase in profits for non-financial corporations in 1994, following increases of 7 percent in 1993 and 28 percent in 1992. Commerce profit measures are conservative in that they exclude earnings on overseas investments, which are now a major part of many companies' earnings, as well as profits on the sale of assets, including land, stocks and used plant and equipment, which also contribute significantly to profits.

Chart 2-9



## Excessive Executive Pay

The pay gap between workers and top corporate executives is getting wider and wider.

The flat or shrinking paychecks of workers in combination with the the rising pay of chief executive officers erodes the middle class, which has been a pillar of American society, and replaces it with a two-tier separation between the rich and everyone else.

*U.S. News & World Report* (Jan. 22, 1996) contrasts the fate of a laid off $20-an-hour tool-and-die maker at Northrup Corp. with the rapid rise in pay of that firm's CEO. While the worker is facing the prospect of taking a $6-$7-an-hour job to make ends meet, CEO Kent Kresa's earnings rose to $1.6 million in 1994, up from $1.1 million the year before.

This contrast shows the widening gap between ordinary workers and top executives, as well as the growing rift between those at the top of the economic ladder and the general population. U.S. News calls it a "growing chasm of income inequality in America."

The chasm has been growing for years. Average pay of a chief executive officer of a large corporation was almost $2.9 million in 1994, including salary, bonus and long-term compensation, including stock options. With an average total pay package of $2.9 million, corporate executives were not hurting, since the total works out to a weekly pay envelope containing $55,400.

CEO pay has run far ahead of the pay of regular workers and has far outstripped rises in profits. In the years since 1980, total CEO pay rose 360 percent, compared with a rise of 205 percent in corporate profits. Meanwhile, factory wages have risen by 75 percent, less than inflation (80 percent). The minimum wage has risen by only 37 percent.

Back in 1960, the pay of an average CEO amounted to 41 times that of a manufacturing worker and 92 times the minimum wage. By 1994, those ratios rose to 109 and 325, respectively.

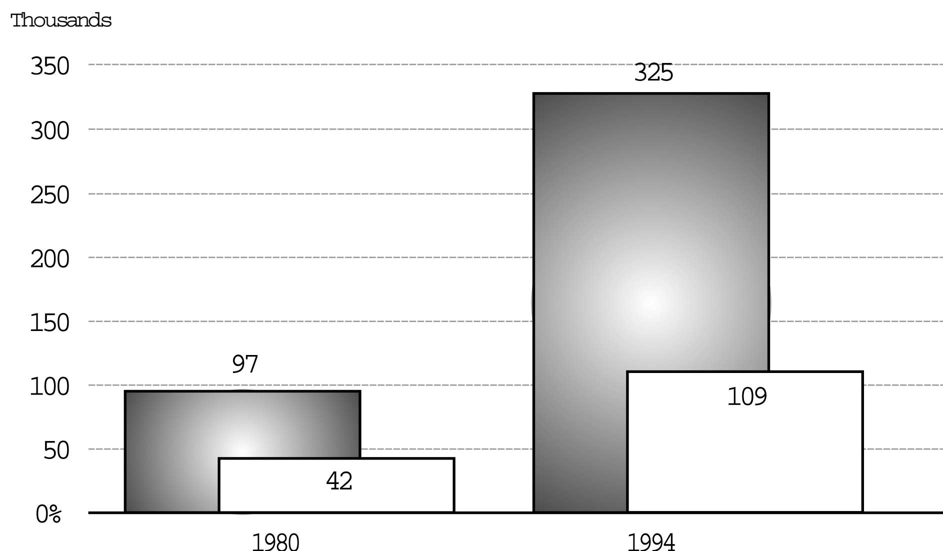
CEOs are paid generously. Their pay often goes up without regard to the fortunes of their companies. They are even rewarded for inflicting punishment on workers in the form of mass firings. They have rich perks not available to workers and enjoy golden parachutes. In contrast, regular workers lack lucrative safety nets when they are laid off. They are vulnerable to foreign

Chart 2-10

**CEO pay as multiple of worker pay and minimum-wage pay**

Growing inequality since 1980

In 1980, the pay of one CEO was equal to that of 42 factory workers or 97 minimum wage earners. By 1994, a CEO earned as much as 109 factory workers or 325 at the minimum wage.




Sources: Bureau of Labor Statistics, Business Week, AFL-CIO

Chart 2-11

## Workers lose jobs but chiefs get raises

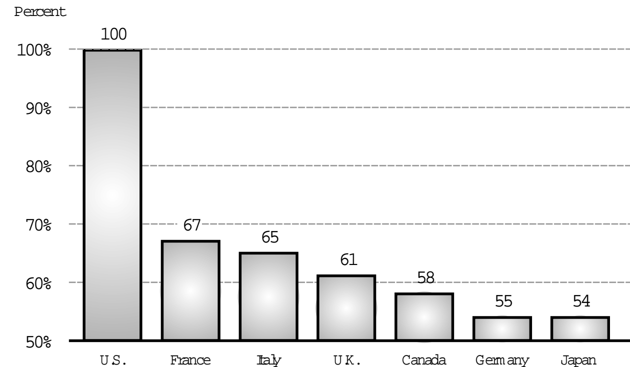
| Company | CEO | Announced job cuts 3/91 – 4/94 | Total '93 compensation (thousands) | Percent change from '92 |
|---|---|---|---|---|
| Sears Roebuck | Edward Brennan | 50,000 | 3,095 | 198% |
| United Technologies | George David | 10,697 | 1,479 | 115% |
| Citicorp | John Reed | 13,000 | 4,150 | 90% |
| General Motors | John Smith Jr. | 74,000 | 1,375 | 84% |
| McDonnell Douglas | John McDonnell | 10,200 | 1,055 | 54% |
| Martin Marietta | Norman Augustine | 15,000 | 1,651 | 18% |
| Pacific Telesis | Sam Ginn | 10,000 | 1,630 | 18% |
| General Electric | John Welch Jr. | 10,250 | 4,013 | 15% |
| AT&T | Robert Allen | 83,500 | 2,517 | 11% |
| Boeing | Frank Shrontz | 30,000 | 1,421 | 3% |
| TRW | Joseph Gorman | 10,000 | 1,558 | -1% |
| GTE | Charles Lee | 32,150 | 1,746 | -6% |
| Unisys | James Unruh | 10,000 | 1,573 | -15% |
| Xerox | Paul Allaire | 12,500 | 1,316 | -30% |

Source: The Wall Street Journal, April 12, 1995

Chart 2-12

## U.S. executive pay is far higher

CEO pay in industrialized nations as percent of U.S. CEO pay*




* Includes cash pay, stock options, benefits and perks.
Source: Wall Street Journal, Oct. 12, 1992.

competition and to the hazards of the business cycle.

CEOs increasingly leapfrog from company to company instead of working their way up the firm ladder, as in the past. It is clear to American workers that many corporate executives are feathering their own nests and not sharing in the risks and sacrifices of firms competing in a global economy.

American CEOs are paid far better than their counterparts overseas. German CEOs, for example, earn little more than half as much on average, according to a survey published by the Wall Street Journal, including cash pay, stock options, benefits and perquisites.

# Declining Quality of Life

Workers and their families are suffering a declining quality of life as a result of falling real wages, lower job quality, less job security and a less fair distribution of income. This situation has prompted Labor Secretary Robert B. Reich to suggest that America's middle class has become America's "anxious class."

Paychecks too often don't keep up with rising prices. Jobs that are available frequently are low-wage, dead-end, temporary or part-time. Business mergers and downsizings too often wipe out jobs long thought to be secure.

In addition, the real buying power of workers' wages has gone down over the last 15 years, and the distribution of income has become more unequal — with the rich getting richer and middle class and poor people suffering erosion of their living standards.

Family debt goes up as paychecks run behind family needs. As unemployment persists, consumers — whose spending has been the key to job-creating economic growth — are burdened now with higher debts from big-ticket buying. Credit for autos, revolving credit and other installment loans jumped by 14 percent in the 12 months ending last September. In contrast, total personal income rose by only 5.6 percent. Wage and salary payouts rose by less than 5 percent. As debt burdens rise, families have less to spend for the other necessities of life.

This means longer waits for home ownership and fewer affordable homes. Back in the 1960s, an average worker's paycheck for one week would cover the monthly mortgage payment, enabling his family to buy a home. Now, a weekly paycheck covers less than half the amount needed to pay the typical monthly mortgage note.

Young workers just starting out have been hit hard. The share of young households aged 30-34 years owning homes fell dramatically from 57 percent in 1982 to 51 percent in 1994.

The declining quality of jobs and its resulting effect on the quality of life can be seen in excessive hours of work and in erosion of benefits on which families depend, such as pensions and health insurance coverage.

## Hours of Work Increasing

Excessive hours of work result in fatigue, with more accidents and health problems. Excessive hours of work also rob workers and their families of needed leisure and a decent, satisfying family life.

The problem of excessive overtime and excessive hours of work is particularly disturbing in light of persistent unemployment for millions of jobless American workers.

Chart 2-13

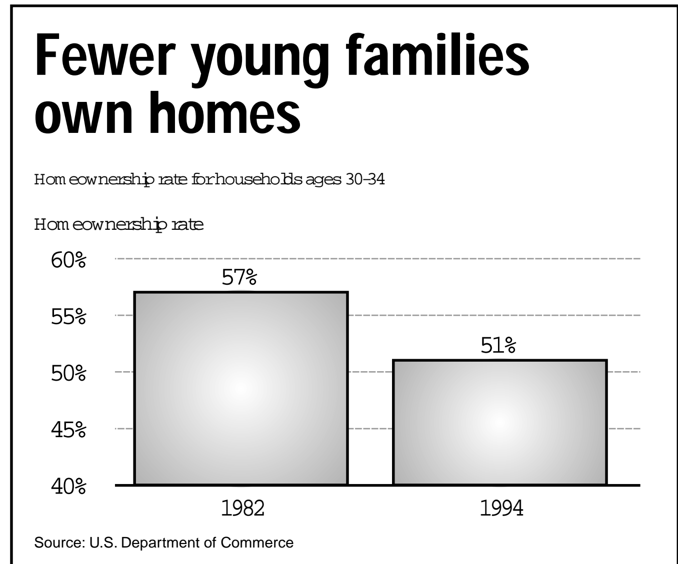
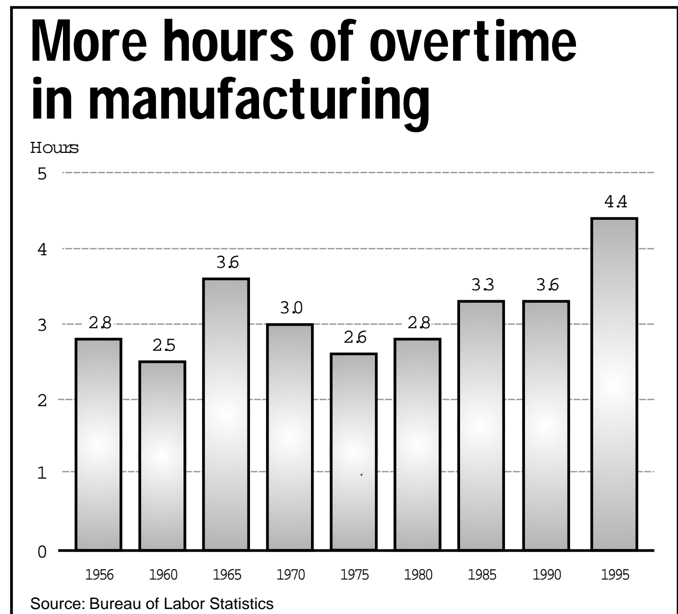



Chart 2-14




Unfortunately, hours of work are increasing. Overtime in manufacturing is at an all-time post-World War II high. And recent studies by Juliet Schor of Harvard University found the average American full-time worker puts in about 140 more hours annually on the job than he or she did 20 years ago.

Paid time off — vacations, holidays, sick leave and personal days — dropped 15 percent in the 1980s, according to Schor's studies. Adding commuting time and the drop in days off to the increased work time, Ameri-

Chart 2-15

cans working full time are putting in an extra 158 hours a year, almost an extra month's time of work in a year.

Workers face a painful dilemma. Overtime work cuts into leisure and family togetherness time, but many workers need the extra income from overtime work to put bread on the table and to make the monthly mortgage payment. About 7 percent of all workers —including a growing number of women — are putting in time on a second job to add to family income.

Meanwhile, as hours of work increase, hours of work are going down in other major industrial democracies that compete with the United States, increasing their number of jobs and raising their quality of life.

# Economic Risks Shift to Workers

Managers of American businesses are shifting more and more of the risks of economic life from shareholders to workers.

This shift in economic risk could be seen in a CBS television interview Jan. 16, 1996, when a laid-off AT&T professional employee, one of 2,000 in New Jersey, talked about his 30 years as a loyal employee and stockholder. While he recognized that stockholders were entitled to a fair return, he decried the fact that loyal employees could be cast aside. And the unkindest cut, he noted, was how the value of AT&T stock went up when the announcement was made that thousands of AT&T employees would lose their jobs.

Managers have shifted the burden of corporate risk from shareholders to workers in a number of ways. Workers wages and salaries have been replaced by stock ownership plans, profit sharing plans, merit pay plans and lump-sum payments in lieu of wages. Health and retirement costs, meanwhile, have been shifted from the company to the worker and the public assistance systems.

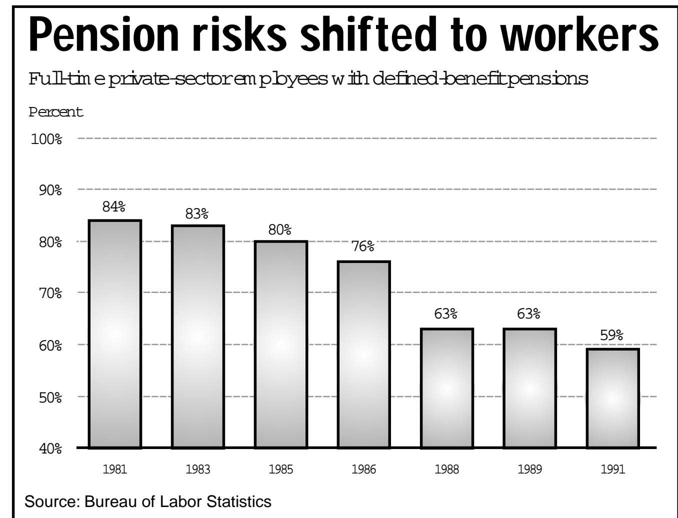
This risk-shifting calls into question the legitimacy of the modern American corporate model. Corporate law in the United States places control with shareholders, but limits their liability as property holders to their investment. What has been occurring during the 1980s and 1990s is corporate avoidance and shifting of this risk to workers and to the general public. The irony is that shareholders in the larger firms do not even deal with the issues; they buy or sell their equity shares, moving in and out of corporations without regard to corporate governance or responsibility.

When corporations "separate" or lay off workers, the workers lose their investment in company-specific skills, lose their health care and nonvested pensions and may wind up on public assistance roles.

## Why Management Shifts Economic Risk To Workers

Management shifts risks to workers and the general public to enhance profits and share values. Stock prices often increase on the news of huge layoffs and revised "variable compensation" pay systems that "link workers to corporate success."

Chart 2-16




Workers who survive corporate reorganizations, downsizing, restructuring and relocations face another form of income risk and insecurity. The long-accepted fixed wages, salaries and benefits are being replaced by unpredictable variable pay and benefit plans. In 1995, about a quarter of all employees were on some form of variable compensation system over which they had little or no control.

This is quite different from previous experience. In the 1960s, about a third of production workers were on wage incentives, time studies, piece rates and even gain-sharing plans. Commission sales were and are still quite common. But workers with these pay systems could still influence their pay. The relationship between what they did and what they were paid was direct, and the actions of others had relatively little impact.

The new pay schemes are variations on profit-sharing, stock appreciation and other contingent-pay plans. Workers have little direct influence on corporate profits, yet a growing share of their pay is based on profits. Exchange rates, interest rates, bad weather, consumer expectations and top management decisions all influence profits.

# Workers' Troubles Are Linked

## Union Density Drops

The numbers show that it pays to work union. Likewise, the decline in worker buying power can be clearly linked to a decline in "union density," the percentage of the work force that is unionized.

Union workers have a 35 percent paycheck advantage over nonunion workers — and union workers have more and better pensions, health care and other fringe benefits.

Women, black and Hispanic workers benefit particularly from union membership. Union women have a pay edge of 37 percent over nonunion women. For black workers the edge is 45 percent, and for Hispanic workers the advantage is 60 percent.

But all workers — both union and nonunion — will benefit from new strength in the labor movement. Nonunion employers often raise their pay levels and their benefit packages as a result of union "demonstration effects" in winning pay raises and benefit improvements for union members.

Also, states with higher "union density" — like New York and California — have laws that are more favorable to workers and unions. States with low "union density" are more likely to have anti-union "right-to-work" laws and low unemployment benefits.

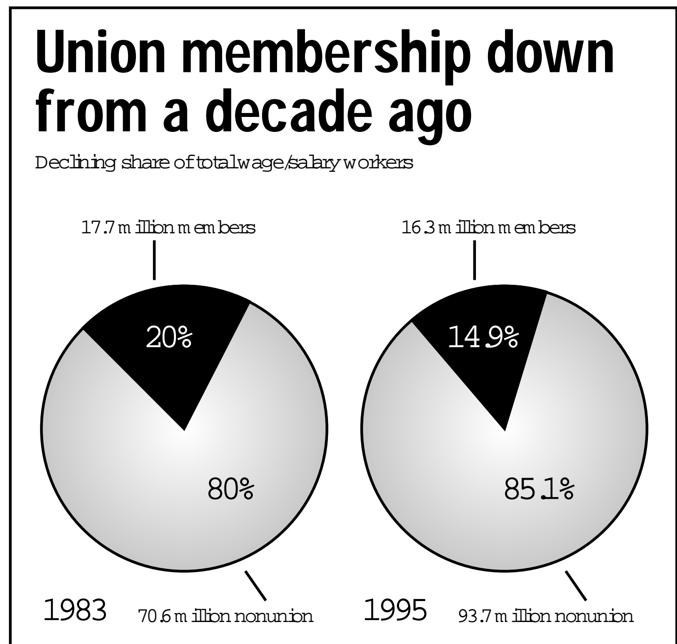
Higher "union density" leads to more representation election victories, more first contracts, more big-pay-raise contracts and more pro-worker, pro-union action by national, state and local governments.

Unfortunately, "union density" in the nation as a whole has been going down, as union membership has not been keeping up with growth in the labor force. This situation weakens union leverage at the collective bargaining table and weakens union power in the political arena.

A look at the past 25 years shows a steady drop in the percentage of union workers. Although there has been some decline in the actual number of union workers in the past 15 years, there has been much more stability there than in the "union density" percentage.

Nearly 17 million American workers are unionized.

Chart 3-1




They make up about 16 percent of all employed wage and salary workers. If you add spouses, children and relatives, there are about 40 to 45 million Americans who are in a family with a union member.

Union density reached a high of 35 percent in 1945 when there were 14 million union members. Union membership also hit highs of 20 million in 1974, 1978 and 1980 — but during those years, union density went down from 26 percent to 23 percent. During the 1980s and 1990s, union membership dropped slowly but leveled off at 16.3 million in 1995.

The 1995 Economic Report of the President's Council of Economic Advisers notes that a "significant portion of the increase in wage inequality during the last 15 years" is the result of the decline in unionization.

There is no one single reason for union decline — but any list would include trade policy, deregulation, defense cutbacks, technological change, political attacks from the Reagan-Bush administrations and coordinated corporate union-busting.

Chart 3-2

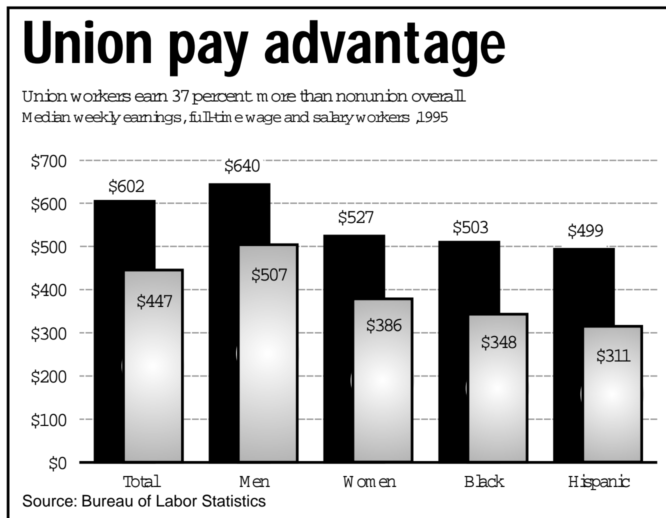
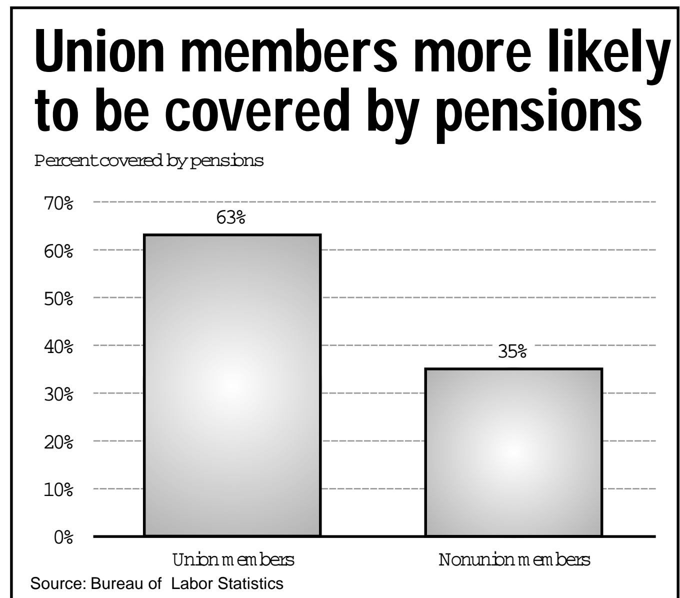



Chart 3-3




Factory workers have been hard hit by trade policies encouraging imports of manufactured goods. Employment in heavily unionized manufacturing hit 21 million in 1979, but factory jobs dropped to 18.3 million by the end of 1995 — and many of those 2.7 million lost jobs were union. Even service-sector jobs have been hit by trade policies that allow export of jobs in finance and insurance.

Deregulation and technological change have wiped out at least 300,000 jobs, mostly union, at AT&T, Bell South and other telecommunications companies. Technological change in manufacturing and service industries has also wiped out thousands of jobs. Big job cuts by defense contractors such as General Dynamics, United Technologies and Boeing have resulted in the loss of another 300,000 mostly union jobs over the past three years.

Wall Street stock prices of companies announcing job cuts often go up. It appears that downsizing and job cuts are often based less on the realities of the marketplace than on the unrealistic perceptions of Wall Street analysts.

The political climate has become more hostile to unions in the past 15 years. President Reagan's firing of striking air traffic controllers encouraged employers' hostility to unions. And the new Republican majority in the House of Representatives is even more anti-union.

Union decline is also strongly related to the revival of union-busting. The goal of union-busting employers and their advisers is to fight union organizing campaigns and to undermine and decertify existing unions.

Union-busting has become a growth industry. Employers often enlist union-buster consultant firms to fight unions. There are at least 7,000 union-busting consultants known to the AFL-CIO, and there is probably an equal number concealed in law firms retained by anti-union employers.

The fact-finding report of the Dunlop Commission on the Future of Worker-Management Relations found solid, undeniable evidence that the nation's labor relations system is heavily tilted toward employers. Employers can permanently replace strikers, weakening unions' ability to organize and bargain collectively. Unions do not have free access to workers during organizing drives, and the penalties for unfair labor practices are so trivial that they do not deter employers' violations of workers' rights and union rights.

All these factors — economic and political — have had a significant negative effect on unions and union membership.

## The Minimum Wage is too Low

The minimum wage has remained unchanged since April 1, 1991, when it was set at $4.25 per hour. That means minimum-wage earners who work full-time year round will receive only $8,840 in annual compensation, which falls $3,350 below the poverty line for a family of three. The last time the minimum wage allowed a family of three to maintain a living standard above the poverty level was in 1980.

The purchasing power of the minimum wage has declined significantly over the past 15 years, during which it has been adjusted only twice, and has failed to recapture lost ground. Its 1968 high point translates into $6.86 in 1995 dollars. Historically, the Congress has provided a minimum wage roughly equal to 50 percent of average hourly earnings of production and nonsupervisory workers on private nonfarm payrolls. The current level of the minimum wage is only 37 percent of average hourly earnings. The historical level (50 percent of AHE) calls for a minimum wage of $5.68 an hour.

Contrary to popular opinion, most people working at the minimum wage are not teenagers. Nine out of 10 are adults age 18 or older. Seven out of 10 people are 20 years or older.

Women and minorities are represented disproportionately among minimum-wage workers. Today, women are 47 percent of the labor force — but they account for 61 percent of the workers who are paid the minimum wage or lower. Black and Hispanic workers make up 21 percent of the nation's work force — but they make up 30 percent of all workers earning $4.25 an hour or less.

According to 1994 wage data from the Bureau of Labor Statistics, 4.1 million workers are earning the minimum wage. Another 2.6 million are earning between $4.26 and $4.67, and another 5.8 million earn between $4.70 and $5.14 an hour. That makes a total of 12.6 million workers who would benefit directly from the 90-cent minimum-wage increase proposed by Senator Edward Kennedy (D-Mass.) in S.413, by House Minority

Chart 3-4

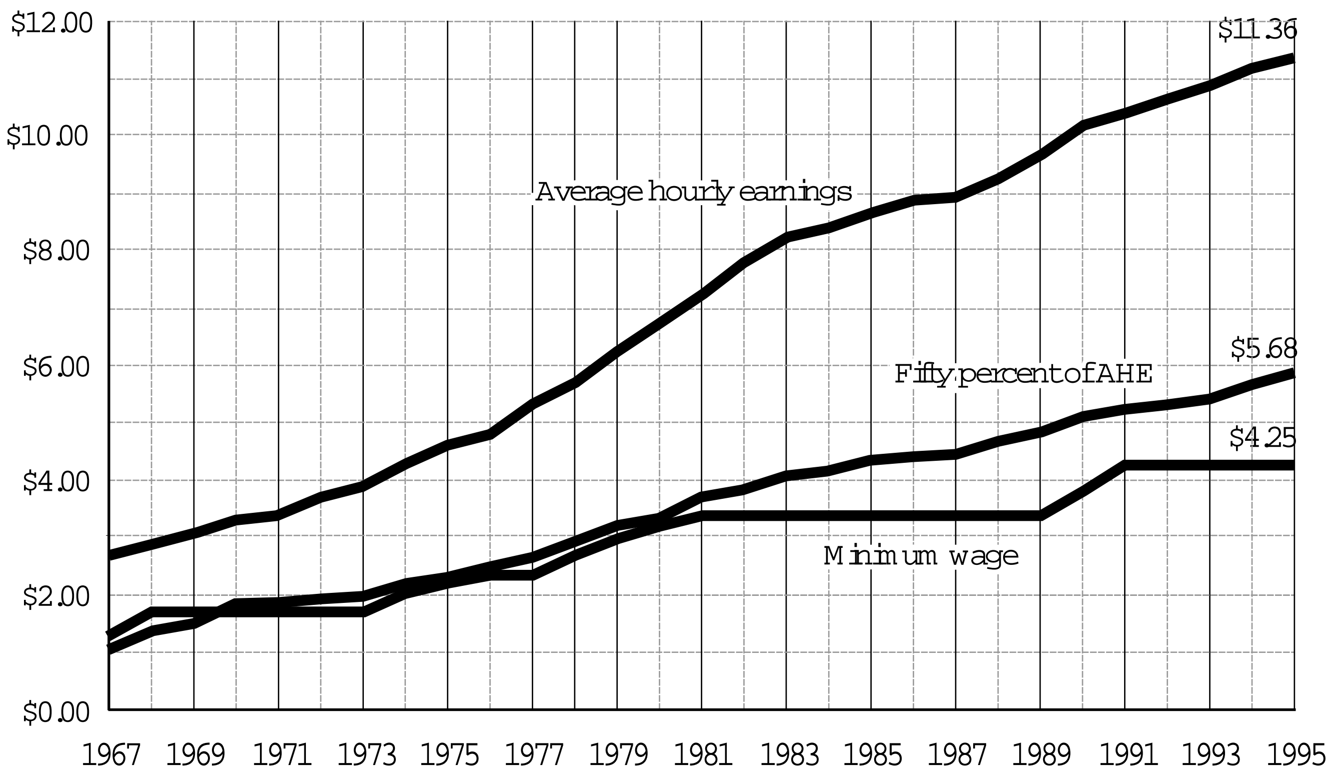
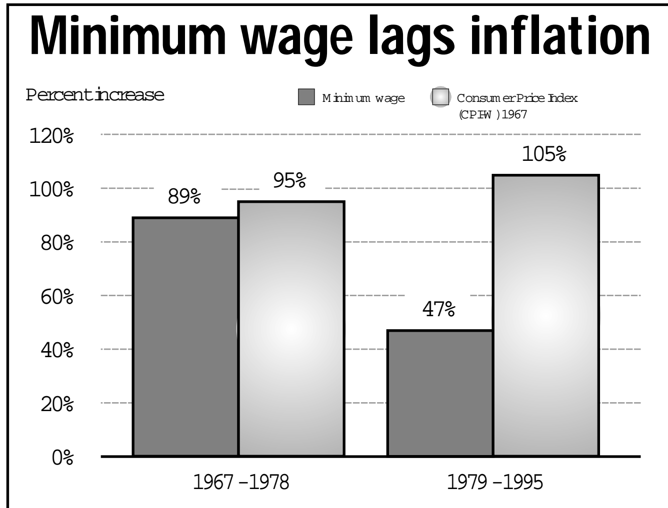


Chart 3-5




Leader Richard Gephardt (D-Mo.) in H.R.940 and the Clinton Administration.

A common argument against raising the minimum wage is that an increase will put many low-income earners out of work. But many studies show there is little or no negative effect on employment from raising the minimum wage.

Three studies by Princeton economists David Card and Alan Krueger examined the 1988 increase in California's minimum wage, the 1990 and 1991 increases in the federal rate and the 1992 increase in New Jersey's minimum wage. In each case the positive effect of raising earnings of low-wage workers was found, without any negative effect of an increase in unemployment.

The Minimum Wage Commission reviewed and summarized a vast amount of research on the employment impact of minimum wage increases in its 1981 report, and concluded that "it is not clear whether one should expect the minimum wage to reduce adult employment, and, if it does, the amount may be so small compared to total adult employment that it will not be detected with precision."

Robert M. Solow, a Massachusetts Institute of Technology professor with a Nobel prize in economics, summed up the debate well when he said, "The evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small."

Opinion polls conducted over the past year have found that more than 75 percent of all Americans favor an increase in the minimum wage, and that support is strong across the political spectrum.

# More Low-Paid Contingent Workers

More and more workers are in temporary, part-time, low-pay, insecure jobs with little or no health or pension rights and few labor protections.

Temps, part-timers, self-employed and independent contractors all have been included by one study or another as the "contingent work force." While debate continues over exactly who and what occupations make up that category, they all have some things in common — lower wages, lack of health insurance and pension benefits and few if any such basic worker protections as unemployment insurance or coverage under the Occupational Safety and Health Act, the Employment Retirement and Income Security Act, the Fair Labor Standards Act and the National Labor Relations Act.

Estimates of the contingent work force range from 30 million to 37 million people. The AFL-CIO estimates that 25 percent of the American labor force are contingent workers.

A 1995 Bureau of Labor Statistics study found that a similar number of workers were working in non-traditional jobs in February 1995. However, the BLS survey used a very restrictive definition of "contingent" and found that the number of contingent workers ranged from 2.7 million to 6 million. The one-time BLS study lacks historical data, and has been criticized as being too narrow and not representing the true number of contingent workers.

Part-time workers often are included in the contingent work force. The number of people working part time (less than 35 hours per week) in nonfarm industries averaged over 21 million in 1994. Close to 4.3 million part-time workers, 20 percent, sought and were available for full-time work during 1995.

Temporary workers have been one of the fastest growing segments of the work force, increasing 193 percent from 1985 to 1995. The number of workers employed in "help supply services" averaged 2.1 million in 1995.

The trend toward using contingent workers will continue. A recent Conference Board survey of 93 major multinational companies found that the percent of companies that have 10 percent or more contingent employees increased from 12 percent in 1990 to approximately 21 percent in 1995 and is expected to increase to over 35 percent by the year 2000.

Five years ago more than 75 percent of those surveyed reported that contingent workers accounted for 5 percent or less of their work force; only 42 percent said it will be that small five years from now. Almost all firms use temporary workers hired by staffing firms (90 percent), independent contractors (85 percent) and temps hired directly (84 percent).

High turnover, job instability and the ease with which employees can be replaced in contingent arrangements make it very difficult for contingent workers to improve their working conditions. Federal labor laws currently do not assure contingent workers an effective right to organize. In fact, contingent workers are often used to circumvent existing labor agreements and organizing drives.

Chart 3-6

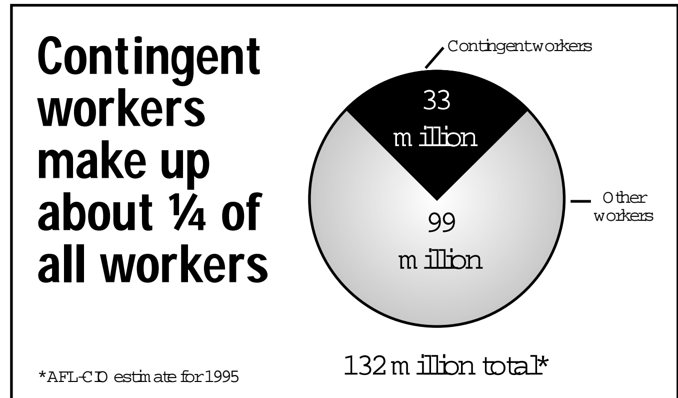
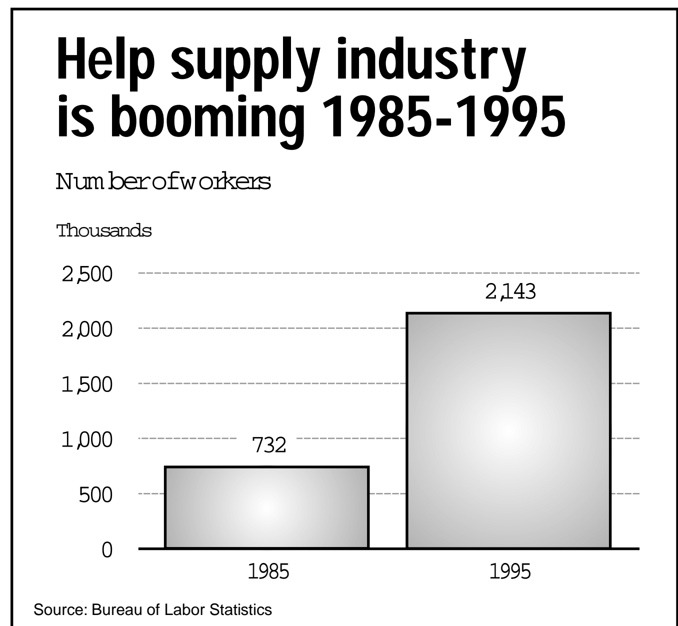



Chart 3-7



# Technology's Double Role

Technology has a positive potential for making work easier, helping to produce more and raising living standards. But technology also has a negative potential for throwing workers out of their jobs and helping businesses shift production and jobs out of the United States to low-wage foreign countries.

New technology provides more efficient ways to produce goods and services, and can thereby help lower costs to consumers and be a source of revenue for higher wages and better benefits. Changes in technology also have the potential to do great harm by displacing workers and reducing incomes for many workers. Technology changes the way we do work with the introduction of new equipment, chemicals, and raw materials, often creating new hazards in the workplace.

One indicator of the speed of changing technology is the rapid introduction of computers in the workplace. In 1984, 25 percent of American workers used a computer on the job. By 1993, that had grown to 46 percent of workers, or 51 million.

In the 1950s and 1960s, new technology helped raise wages and benefits. New technology meant workers could do more, and the growth in wages added to consumer purchasing power, preventing job losses. Today, as real wages fall, the predominant effect of new technology is corporate downsizing and job losses.

New technology has made plant and equipment more mobile, giving managers greater ability to produce in foreign countries. Advances in communications, transportation and computerized information systems have reduced the cost to U.S. companies of producing abroad. Plants built outside the United States by U.S. companies often send goods back to the United States, worsening the U.S. trade balance and putting Americans out of work.

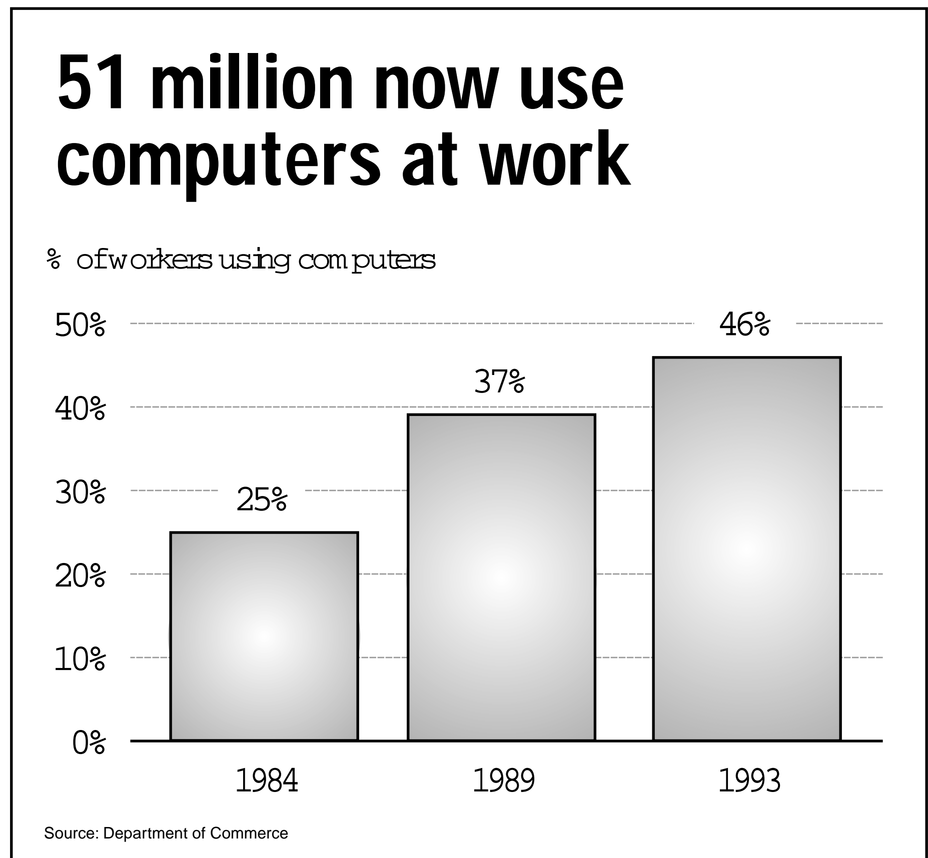
Many new inventions protected by patents and copyrights too often bring millions in profits for corporations and stockholders (not to the inventors) even as the corporations transfer technology to foreign countries rather than enhancing U.S. productivity.

Traditionally, management has seen technology as a means to lower wages, simplify work, eliminate workers and use a less-skilled labor force. Decision-making and judgment are shifted from those doing the work to supervisors. Lower wages, more supervision and less training for those doing the work can be the result.

Unions have sought to ease the impact of new technology by promoting worker empowerment and worker involvement, including the need for increased training and skills. In this approach, workers are more involved in decision-making, and there is less of a role for supervisors.

Workers' involvement and their increased responsibility, training and skills are compensated with higher wages, resulting in better product quality and efficiency. Unfortunately, these "high-performance work systems," as former Labor Secretary Ray Marshall calls them, represent a tiny minority of workplaces.

Chart 3-8



# Mergers and Downsizing Kill Jobs

Hundreds of thousands of jobs are disappearing as a result of corporate America's binge of mergers and downsizing of firms. The resulting sense of job insecurity is too often restraining workers' push for higher wages.

In many cases, companies are using inflated stock values to expand market share through acquisitions rather than through higher sales, and deregulation and globalization are driving play a role. Other firms are trying to boost profits by cutting staff. The process of becoming lean and mean, however, is accompanied by a constant drumbeat of dramatic announcements of layoffs of thousands of workers.

The value and volume of merger activity was unprecedented in 1995. There were 8,900 mergers worth a total of $460 billion. U.S. firms announced 72,000 layoffs due to mergers, accounting for 16 percent of all layoffs.

Chart 3-9

**Huge layoffs in recent years**

| | |
|---|---|
| AT&T | 40,000 jobs |
| General Motors | 75,000 jobs |
| Sears Roebuck | 50,000 jobs |
| U.S. Postal Service | 45,000 jobs |
| IBM | 60,000 jobs |
| General Dynamics | 30,000 jobs |
| Boeing | 30,000 jobs |
| United Technologies | 14,000 jobs |
| Martin Marietta | 11,000 jobs |
| Chemical-Chase Manhattan | 12,000 jobs |

Almost daily come announcements of big and small layoffs and downsizing. In industry after industry, and at all levels, from the production line to management offices, there is a blizzard of pink slips. This is going on even as the economy nears five years of expansion and positive economic growth. For example, the recent merger agreement between Wells Fargo and First Interstate Bancorp involves a loss of 7,000-8,000 jobs as 350 offices are closed in California.

Public workers are also hit by downsizing and layoffs at federal, state, city and other local government levels.

For example, the Council of State Governments recently noted that downsizing and reduction of state work forces was the most important issue facing state personnel directors over the last five years, and will be the most important issue over the next five years as well. A related issue is "privatization" as more public services are contracted out to the private sector. Public-sector downsizings are challenging public-sector unions all over the country — from New York City to Los Angeles County. This includes federal workers losing jobs as a result of Republican cuts in the federal budget and shutdowns of defense facilities and other federal programs.

Displaced workers have only a one-in-four chance of equal or better pay after losing their jobs. More often they end up jobless, out of the labor force, part time or at reduced pay.

The result is fear among all workers, who increasingly feel threatened in the face of mortgage payments, education expenses for their children and everyday expenses.

### Causes of Mergers and Downsizing

Merger mania is caused by a number of factors, including a desire to enhance the egos of some corporate chiefs, opportunities provided by deregulation, and technology blurring the boundaries between industries such as media and entertainment. Affected industries include banking, broadcasting, business services, insurance and telecommunications.

Downsizings are often driven by a corporate focus on short-term profits and share prices, which can often be artificially enhanced through cuts in jobs. The present business ethic demands that firms must follow the practice of cutting expenses even if profits are good and business is booming.

Some business downsizings are driven by defense cutbacks. Many bank mergers are occurring to increase profits and to take advantage of reduced geographic restrictions on operations. An anti-tax, anti-government sentiment helps explain attempts to cut government services and employment and to contract out services. Deregulation is behind big changes in such industries as telecommunications, trucking, airlines and utilities.

Chart 3-10

## Recent mergers and job losses

| | Value (est) in billions | Job loss |
|---|---|---|
| Chase Manhattan – Chemical Bank | $ 9.87 | 12,000 |
| Marion Merrell Dow – Hoescht (Germany) | 7.12 | 8,000 by 1997 |
| Scott Paper – Kimberly-Clark | 6.79 | 2,700 by 1997 |
| Upjohn – Pharmacia (Sweden) | 6.32 | 4,000 over 2-3 years |
| First Chicago – NBD Bancorp | 5.30 | 1,700 by end of 1997 |

Note: Mergers are announced transaction, not necessarily finalized deals.
Source: Washington Post, Jan. 6, 1996.

Unfortunately, there is also a breakdown in the social compact between labor and management which has over the years offered employment security to loyal and devoted workers. In many cases, the compact has been overwhelmed by corporate greed in pursuit of high profits with total disregard of the welfare of employees.

### Implications for Workers and Society

While share prices and profits may rise in the short term as the result of these widespread changes, the effects on firms are more problematical. This is especially so in cases where a company undergoing restructuring may already be profitable.

The psychic health, morale and job performance of remaining workers are affected as they wonder if they will be the victims of the next wave of cuts. Workers may for example begin to spend work time seeking alternative employment instead of doing their jobs.

Customers and clients are often adversely affected as they vainly seek the services of companies with fewer workers. Bank customers and inner-city communities for example are adversely affected when mergers result in fewer branches, higher fees and reduced loan availability to the poor, minorities and small businesses. Reduced employment levels and cutbacks in government often result in fewer and poorer quality public services, including education.

Mergers and downsizing result in the dislocation of hundreds of thousands of workers, often resulting in big drops in their standard of living, if they are lucky enough to get other jobs. Pension benefits and health insurance plans may be lost, in addition to wage and salary losses.

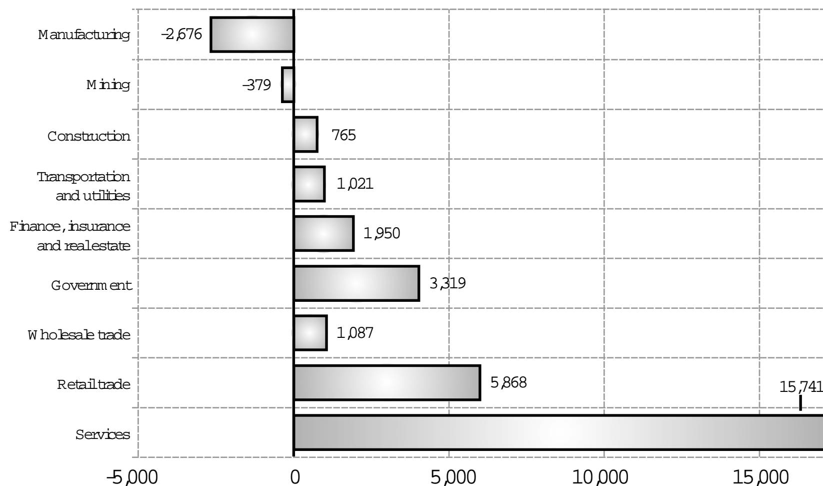
The bottom line for workers during the current wave of mergers and downsizings is lower living standards, more job insecurity and more job dissatisfaction.

Chart 3-11

## Employment change by industry

### 1979-1995 (in thousands)

From 1979 to 1995, 2,676,000 manufacturing jobs have been lost in the United States. These jobs, averaging $12.35 per hour, have been offset by increases in lower-paying retail trade and service industry jobs.




| Average hourly wage in 1995 | |
|---|---|
| Manufacturing | $12.35 |
| Mining | $15.32 |
| Construction | $15.02 |
| Transportation and utilities | $14.22 |
| Finance, insurance and real estate | $12.33 |
| Government | unavailable |
| Wholesale trade | $12.40 |
| Retail trade | $ 7.70 |
| Services | $ 11.07 |

Note: 1995 is preliminary estimate by AFL-CIO
Source: Bureau of Labor Statistics

# Trade Policies Kill Jobs

Persistently large trade deficits have caused hardship for millions of U.S. workers and their communities. These deficits threaten the overall health and security of the nation, contributing significantly to the downward pressure on wages and increasing job insecurity, making it more difficult for future generations of workers to find employment.

The U.S. merchandise trade deficit increased to $151 billion in 1994 and is projected to exceed $185 billion in 1995. Using the estimate that each $1 billion destroys 17,000 U.S. jobs, the $151 billion trade shortfall cost the economy 2,570,000 jobs in 1994, with even more projected in 1995.

Inadequate U.S. trade policies, other nations' discriminatory practices and changing economic conditions in the United States and abroad have contributed to the worsening trade deficit. This country's "open market" policy has resulted in an influx of foreign-made products while a worldwide recession has impaired the willingness and ability of major trading partners to buy U.S. products.

Central to the U.S. trade problem is the 1994 record $156 billion deficit in manufactured-goods trade. The total level of imports into the United States roughly tripled to $664 billion during the years 1980 to 1994. In the same period, manufacturing imports soared from 54 percent to 84 percent of all imports.

The surge of manufacturing imports has been devastating for U.S. workers. Total employment in U.S. manufacturing has seen a steady decline from 21 million in 1979 to 18.4 million in 1995, a decrease of 2.6 million U.S. manufacturing jobs in 16 years. During the same period, total non-farm employment grew by 26.7 million jobs, mostly in the lower-paying service sector.

Trade-related economic restructuring that lowers average wages and shrinks the tax base has produced a devastating effect on local, state and federal tax revenues. The impact on public-sector employment has been severe. Equally alarming is the under-consumption effect, wherein overall demand for goods and services is depressed because workers are not being paid enough to purchase the products they are making.

The "free traders" argue that trade increases the prosperity of the country and raises everybody's welfare, and that export workers make higher than average wages. However, there is no empirical evidence that trade liberalization has increased U.S. wages. Both export workers and workers in industries adversely impacted by imports earn 20 percent more than those

Chart 3-12

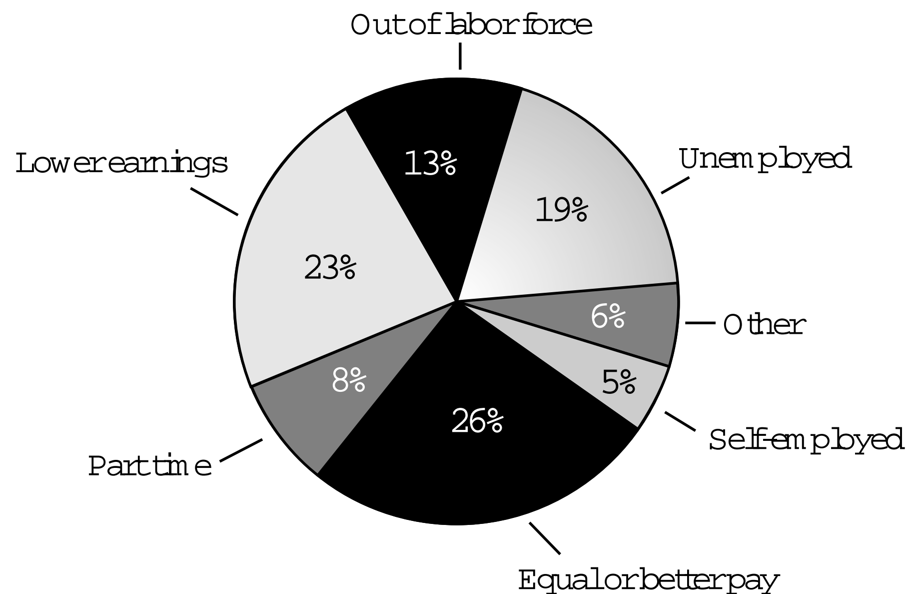
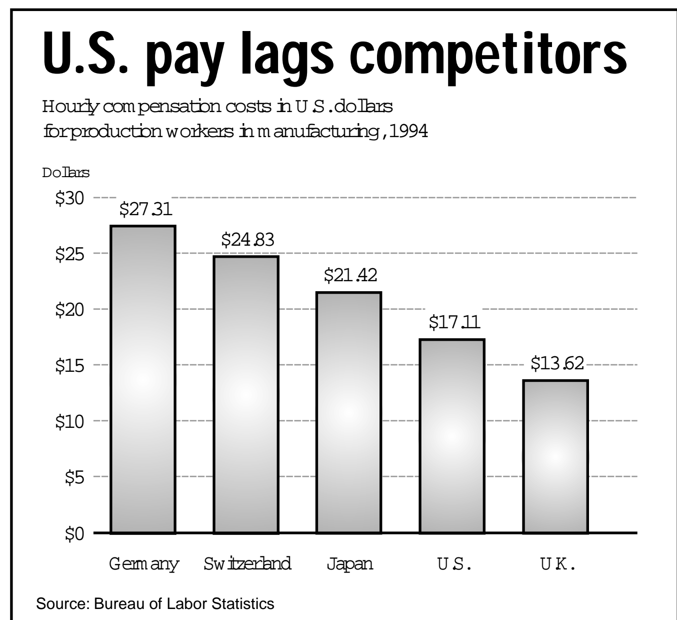


Chart 3-13

Chart 3-14




working in industries producing for domestic production. International trade also involves industries and jobs outside manufacturing. Export growth has been an important source of employment growth in several low-wage industries, particularly agriculture and wholesale warehousing.

Trade liberalization since 1982 has resulted in large and persistent trade deficits, meaning that more workers lose job opportunities from imports than gain jobs from exports. Trade liberalization on wages also contributes to downward pressure on wages. When an employer demands concessions and threatens to move production to a low-wage, offshore site, workers in collective bargaining must take the threat seriously.

## Lack of Worker Rights Hurts Workers Everywhere

As international trade and investment and the globalization of production continues to grow, the ability of workers to apply internationally recognized worker rights becomes increasingly important. It is painfully clear that there are no automatic mechanisms by which increased trade, or indeed purely national economic growth, lead to higher wages and improved working conditions.

While increased trade can provide the resources for improvements, history tells us that only trade unions through collective bargaining and government through adequately enforced labor laws can ensure that it leads to higher standards of living for all workers. To bring reality to the concept of internationally recognized worker rights, a variety of policies should be pursued.

Worker rights must be made a principal trade negotiating objective of the United States, and this country must insist in all trade negotiations that worker rights provisions are necessary if agreements are to be reached. Those provisions must include the prohibition of forced labor, guarantees on freedom of association and the right to organize and bargain collectively, as well as nondiscrimination in employment.

Rules should also be established to ensure a safe and healthy workplace, prevent child labor and establish appropriate standards concerning hours of work. Agreements reached in these areas should be incorporated in the main body of trade agreements and be subject to the same dispute settlement mechanism available to other covered issues.

## U.S. Investment Abroad

The global economy is increasingly being driven by multinational corporations, many of which have sales greater than the total gross domestic product of most nations. Most of the assets are in the 100 largest companies, which are dominated by Japanese and U.S. companies. Operating simultaneously in two or more countries, these corporations have a dramatic impact on trade among nations and on wages and the job security of workers around the globe.

U.S. businesses invested abroad at a record rate in 1994, reaching $58.5 billion. The U.S. investment position abroad totaled $612 billion. The fastest growing recipient regions of U.S. investment are Asia and the Pacific, up 17 percent, and Latin America, up 14 percent from 1993.

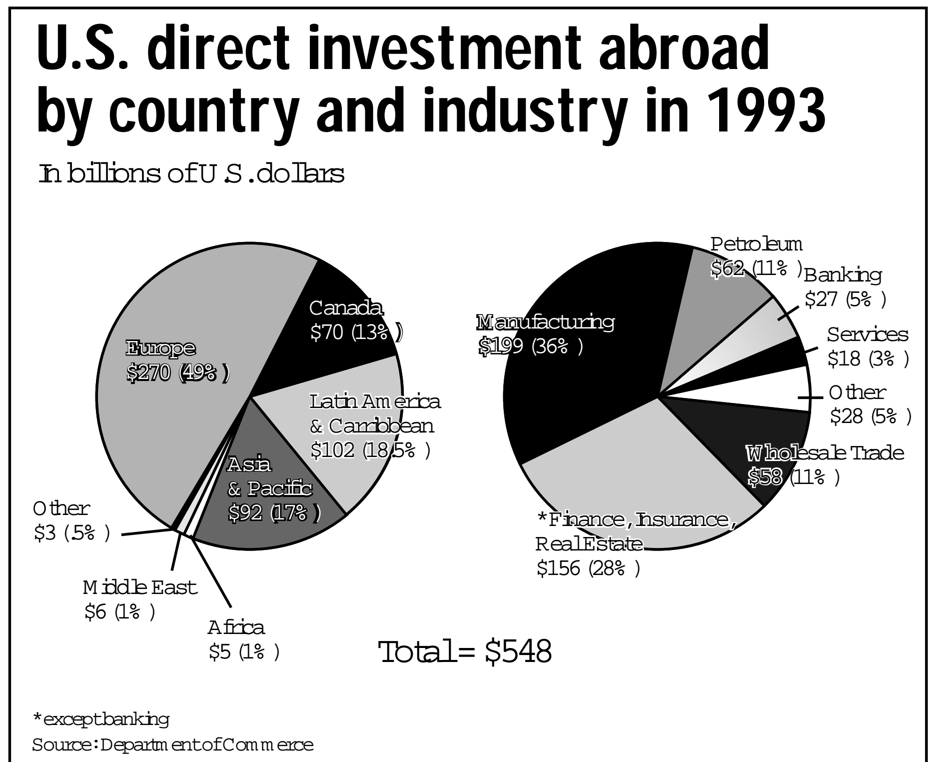
The role of this investment has shifted from exploiting new markets with local production to producing goods abroad for export to developed markets. This dis-

turbing trend will continue as corporate global policies are driven by the desire to produce goods and services at the lowest cost possible.

Contrary to NAFTA proponents who claimed that the agreement would eliminate the need for maquiladora assembly plants along the U.S. border, as many as 160 new maquiladoras are likely to be established by the end of this year, according to a study by WEFA, a forecasting service that estimates that the number of maquiladora jobs will rise to a total 943,000 by 2000.

Employment by U.S. multinational corporations abroad was approximately 6.7 million workers in 1992. With one-fifth of all U.S. merchandise imports coming from foreign affiliates of U.S. multinationals, it is clear that many of these workers are producing goods that compete directly with those made by workers in the United States.

Chart 3-15




Since that number does not take into account foreign contractors of U.S. companies, the actual proportion of U.S. imports that result from offshore production is undoubtedly higher. This explains why American business is so adamantly opposed to tariffs — not fear of foreign retaliation, but fear of tariffs on products from American-owned industrial plantations.

The pursuit of larger profits at the expense of worker rights and sustainable growth has a huge impact on American workers and their unions, particularly as large employers "rationalize" production by downsizing at home while adding workers in developing countries. A textbook example is AT&T, a company that has increased its foreign work force from some five dozen to 60,000 over the past decade. During the same time, this U.S.-based multinational has cut more than 100,000 workers, mostly in the United States.

For the American middle class, the reality of surging global production has been painful. U.S. workers are faced with declining real wages, reductions in benefits and the threat of plant closures and relocations. Combined with abysmal wages and employment conditions of many foreign workers in multinational affiliates, the situation for workers is far from the "win-win" scenario touted by business leaders. Corporate and financial interests are using economic globalization as a lever to lower workplace rights and standards by pitting workers against each other.

# Bad Tax Policies Could Get Worse

The nation's tax system does not serve the vast majority of working people. It doles out billions of dollars in unjustified tax giveaways to the wealthiest Americans and the biggest corporations, and it does not raise sufficient revenues to meet America's urgent public investment needs.

But the tax system may get much worse, if Republicans in Congress have their way. The Republican leadership is proposing a series of tax giveaways to the rich and big corporations while trying to roll back programs that benefit working families, such as the Earned Income Tax Credit. Perhaps most horrendous is a "flat tax" proposal floated by House Majority Whip Richard Armey (R-Texas) and echoed along the Republican campaign trail.

The distribution of tax burdens and benefits has shifted tremendously since the late 1970s. The wealthy and corporations are paying a smaller percentage of their incomes in taxes, while the tax burden on millions of working Americans of moderate means has increased. Despite the welcome improvement in progressivity of the federal income tax enacted in 1993, the wealthiest 1 percent of taxpayers still pays less as a percentage of their income than it did in the late 1970s.

Although the tax system is not wholly or even primarily responsible for the stagnation of wages, disappearance of good jobs or the widening gap between rich and poor that have occurred since the 1970s, it has worsened each of these damaging trends.

Corporations have shouldered a smaller proportion of the federal income tax burden in each successive decade since the 1950s, and are taxed more lightly than their competitors in such highly successful industrial nations as Germany and Japan. To add insult to injury, they enjoy a wide array of tax breaks for exporting or destroying American workers' jobs.

Corporate income taxes accounted for only 9 percent of federal revenues in 1993, down from 16 percent in 1973 and 31 percent in 1953.

It doesn't have to be this way. The tax system could be restructured to take some of the financial pressure off working families, reduce their growing economic insecurity, shrink the gap between rich and poor and curb the loss of good jobs, while fulfilling its primary function of raising sufficient revenues to pay for the legitimate and necessary activities of government.

Chart 3-16

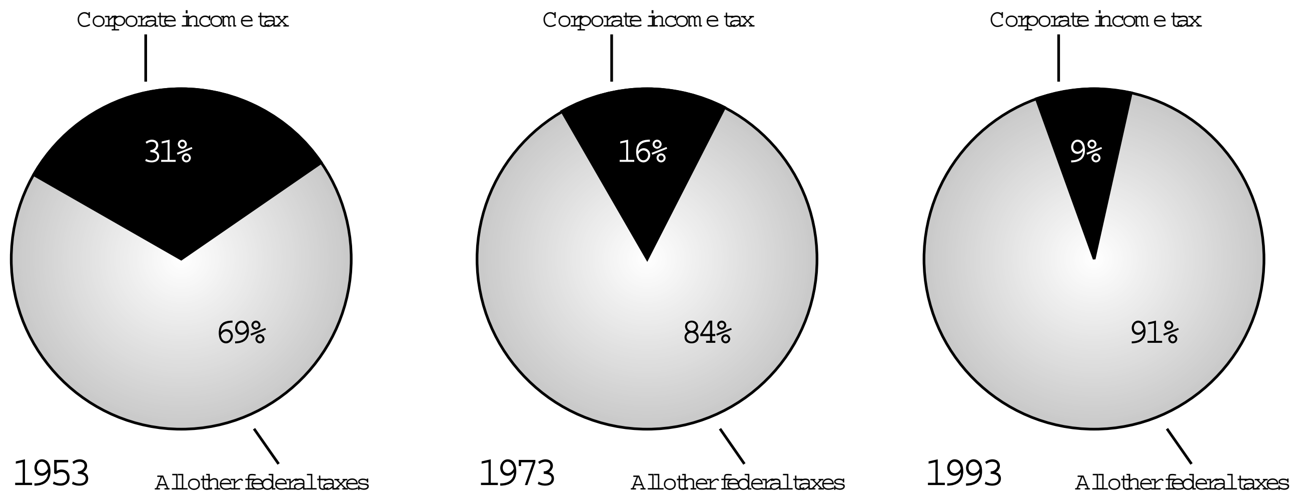


Chart 3-17

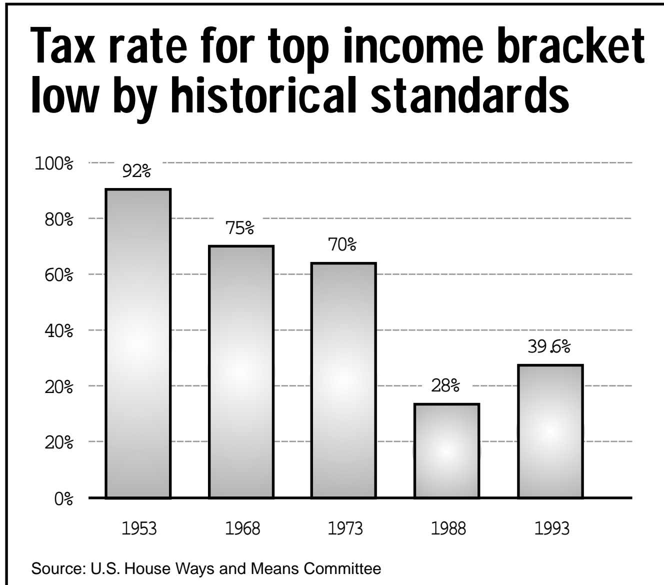
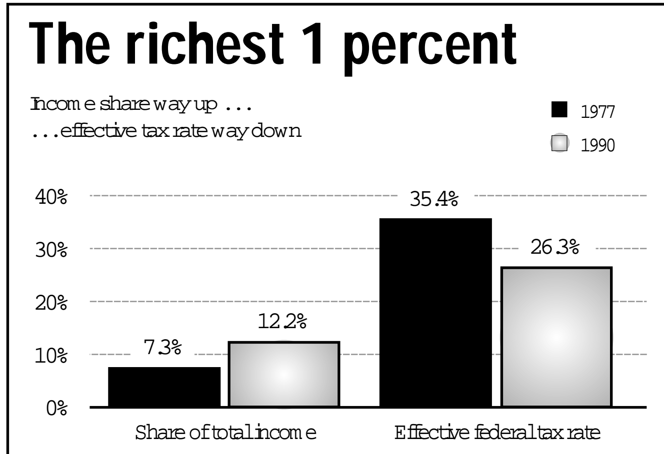



Chart 3-18




Such a restructuring of the tax system in favor of working people and their families would not be easy, given the political power of the wealthy, corporations and the politicians who are beholden to them. The difficulty of the challenge however does not mean that it cannot or should not be undertaken. The true agendas of many right-wing and conservative politicians who claim falsely to represent the interests of working people can be exposed.

## Capital Gains Tax Cuts Benefit Wealthy

Since the 1994 election, many Republicans have been calling for big tax cuts as part of their so-called “Contract with America.” What they don’t say is that well over half of their proposed tax cuts would go to taxpayers with incomes of more than $100,000 per year, and that these tax cuts would be paid for by deep cuts in funding for vital programs or agencies such as Medicare, Medicaid, student loans, job training, OSHA and the NLRB, as well as by tax **increases** on millions of low-wage working Americans who would lose part or all of their Earned Income Tax Credit (EITC).

One reason the Republicans’ proposed tax cut is so unfair to working people and so skewed to the wealthy is the fact that the centerpiece of their plan is a deep cut in taxes on capital gains, the appreciation in the value of an asset between the price at which it is bought and the price for which it is sold.

Capital gains are already accorded highly preferential treatment under today’s tax system compared with workers’ wages. For example, the maximum tax rate on capital gains is 28 percent, while on wages it is 39.6 percent. Even worse, capital gains passed on to an heir completely escape the federal income tax. Many other loopholes combine to reduce the effective tax rate on capital gains to a tiny fraction of the effective tax rate paid on wages and salaries.

Since nearly two-thirds of all capital gains accrue to the richest 1 percent of taxpayers, the current highly preferential treatment afforded capital gains under today’s tax system benefits the wealthy at the expense of wage-earning Americans.

Further deep cuts in taxes on capital gains, which most Republicans now advocate, would thus make a bad situation even worse. Their claims that lower taxes on capital gains would benefit working people indirectly by stimulating savings, investment, job creation and economic growth are cynical and bogus. Capital gains on existing shares of stock, which account for 97 percent of stock market transactions, go directly into the stockholder’s pocket without providing corporate America an additional penny of funds to make job-creating investments.

The current Republican proposal for another deep cut in taxes on capital gains is therefore nothing more than a proposal to continue the shift in tax burdens away from the wealthy and onto wage-earning working people.

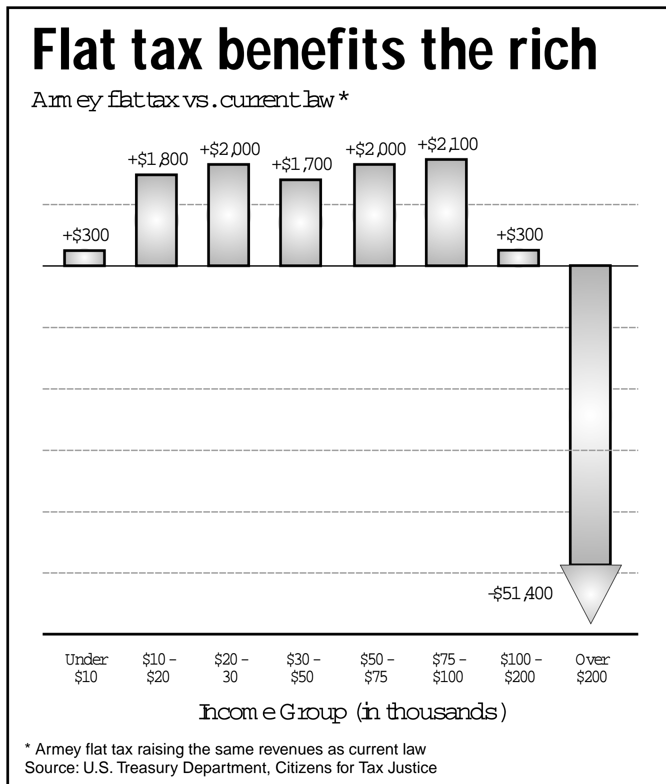
## The Terrible Flat Tax Proposal

The flat tax means more taxes if you’re a worker and not rich.

Not content with a short-term agenda of taking billions of dollars away from vital federal programs to pay for a big tax cut for the rich, the Republicans are looking for new and different ways of shifting even more of the tax burden from investment income to wages. They want to reduce the taxes of those who are wealthy enough to have substantial savings and investments, even if that means higher taxes on the millions of hard-pressed working families who must spend every penny of their already inadequate paychecks.

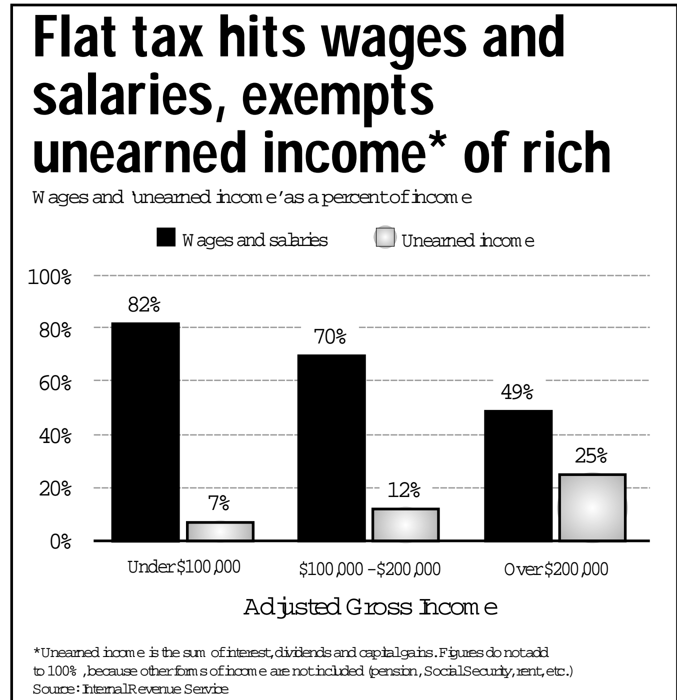
Their top proposal to do this is the so-called flat tax, which has emerged as the leading Republican contender to replace the current federal income tax, both personal and corporate.

Chart 3-19




* Armey flat tax raising the same revenues as current law
Source: U.S. Treasury Department, Citizens for Tax Justice

Chart 3-20




*Unearned income is the sum of interest, dividends and capital gains. Figures do not add to 100%, because other forms of income are not included (pension, Social Security, rent, etc.)
Source: Internal Revenue Service

In reality, the flat tax would be neither simple nor fair. It would create a double standard in which workers' hard-earned wages and salaries are taxed, while the interest, dividends and capital gains received primarily by the wealthy are not taxed directly at all.

The flat tax would be a bad deal for everyone making less than $200,000 per year. According to Treasury Department estimates, a "revenue-neutral" flat tax (one which neither gains nor loses revenues compared with the current personal and corporate income tax) would result in a 9 percent increase in federal income taxes for taxpayers with incomes between $30,000 and $75,000 per year. Taxpayers with incomes above $200,000 on the other hand would enjoy a whopping 26 percent income tax cut.

While details differ between proposals, most flat tax plans embody the following major features:

- All income that is subject to tax would be taxed at a single rate.
- The personal tax would be levied only on wages, salaries and pensions. There would be a sizable personal allowance, but no or very few deductions.
- The personal tax return would be simple to fill out. For most people, the tax form would be no bigger than a post card.
- The business tax would apply to all business receipts less wages, salaries and pension contributions paid, and less purchases of materials, supplies and services from other businesses. Expenditures for fixed assets (buildings and equipment) would also be fully deductible. Interest payments would *not* be deductible; nor would employer payments for non-pension job-related benefits (such as *medical insurance*).

### What's Wrong With the Flat Tax?

Despite its surface appeal, and despite all of the problems and unfairness of the present tax system, the flat tax would be a very bad deal for working people. Citizens for Tax Justice estimates that the flat tax would increase the annual taxes of those making $50,000-$75,000 per year by an average of $2,000. Those with incomes above $200,000 per year would enjoy an annual tax cut averaging more than $50,000!

The flat tax would therefore result in a tremendous increase in unfairness of a tax system which is already far from fair. This stems from three major causes. First, under the flat tax, recipients of non-wage income would no longer be taxed directly on the interest, dividends, capital gains and other non-wage income that they receive. Second, the flat tax with its single rate would take a smaller bite out of high incomes than does today's moderately progressive personal income tax. Third, a considerable part of the business portion of the flat tax would be passed on to consumers. This portion of the flat tax would be highly regressive, hitting those with low incomes the hardest.

**Non-Wage Income Not Taxed** — One of the greatest inequities to working people resulting from the flat tax stems from the fact that non-wage income, such as interest payments, stock dividends and capital gains on the sale of real estate or financial assets such as stocks or bonds, would no longer be directly taxed.

How much of a shift in tax burdens from upper-income to lower- and middle-income taxpayers would this represent? A lot. Taxpayers with incomes of between $30,000 and $75,000 per year derive 83 percent of their incomes from wages and salaries, and only 6 percent from dividends, interest and capital gains. The richest taxpayers by contrast, with incomes of $200,000 per year and up, receive a much smaller 49 percent of their incomes in the form of wages and salaries, but derive 25 percent from dividends, interest and capital gains. Under the flat tax, their tax bill for these billions of dollars in non-wage income would be **zero**.

**Huge Revenue Loss** — Proponents of the flat tax say their intention is to offer a proposal that is "revenue neutral." In other words, the flat tax is not supposed to increase or decrease revenues compared with the current individual and corporate income tax.

Treasury Department analysts, however, find that the flat tax would result in a huge revenue shortfall, thereby causing an even bigger budget deficit than we have today, or requiring even deeper cuts in federal spending than the massive cuts already under consideration. Alternatively, in order to achieve revenue neutrality, the "uniform tax rate" would have to be considerably higher than the rate proposed by flat-tax advocates to date.

In the case of Rep. Armey's plan, for example, the Treasury Department estimates that his proposed 17 percent tax rate would result in a $186 billion revenue shortfall. The tax rate would have to be increased to 23 percent in order to avoid a revenue shortfall.

**Flat Tax Not Even Simple** — Even the claim that the flat tax would be far simpler than today's income tax system does not stand up under close scrutiny. Nearly 20 million taxpayers use the Form 1040-EZ. For these taxpayers, filing their income tax is no more complicated than completing the famous flat tax postcard-size tax return.

For other taxpayers, the flat tax return would indeed be simpler than today's Form 1040, but at a huge cost. Under most versions, no deductions whatsoever would be permitted on the flat tax return. This means, for example, that someone with a serious illness and inadequate medical insurance would have no tax deductions for their medical expenses, no matter how large they were. This may be simpler than today's income tax, but it certainly is not fairer.

**Job-Related Benefits Not Deductible** — One thing that would *not* be deductible on the business side of the flat tax is employer payments for employee benefits other than pension plan contributions. At a time when national health insurance still has not been enacted, the flat tax would therefore undermine and erode the job-related medical insurance coverage that millions of workers and their families depend on. Employer payments for other job-related benefits, including education and training, life insurance and child care, would not be deductible either.

Despite its surface appeal and notwithstanding the misleading claims of its supporters, the flat tax would be a lousy deal for working Americans. The current tax system has serious problems, but the problems would be made worse by the flat tax. Under a flat tax, the richest and most privileged Americans would get a huge tax cut and everyone else would pay more.

## Corporate Welfare: Tax Breaks That Cost Jobs

A wide array of corporate tax provisions reward corporations that export or destroy American workers' jobs. Provisions such as the foreign tax credit, transfer pricing rules, deferral of taxes on unrepatriated foreign profits and the tax treatment of corporate restructurings in the form of mergers, leveraged buyouts and acquisitions cost literally billions of dollars in tax revenues and contribute greatly to the export or destruction of jobs.

**The Foreign Tax Credit** — The foreign tax credit generally enables multinational corporations to reduce their U.S. income taxes dollar for dollar for every dollar of income taxes paid to a foreign government.

The foreign tax credit in effect turns over the taxing authority of the U.S. government to foreign governments. It says, in a sense, that if a foreign government chooses to tax a corporation, the United States will not, and if the foreign government increases the taxes it collects from the corporation, the United States will reduce its tax collections in response.

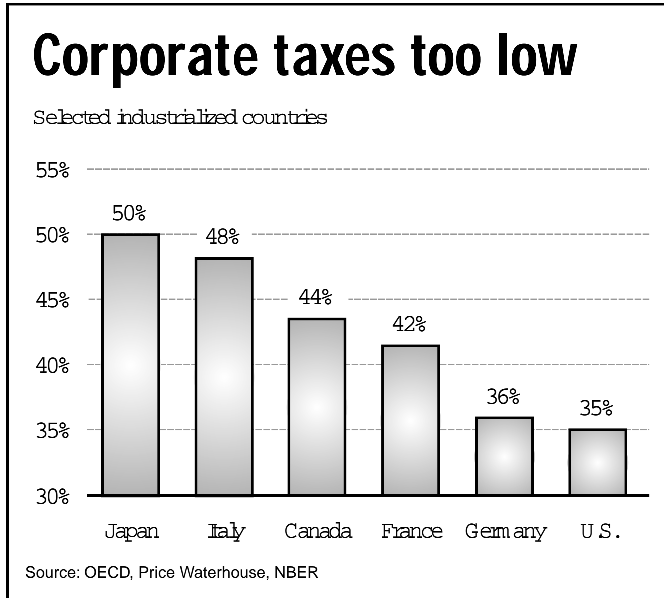
**Understanding Foreign Tax Deferral** — The deferral privilege allows U.S. corporations to pay no income taxes on the earnings of their foreign subsidiaries unless and until the profits are returned to the United States. In a sense, deferral is an interest-free loan from U.S. taxpayers to firms that wish to expand overseas subsidiaries by keeping their profits abroad.

Because it rewards firms for reinvesting profits in other countries, it creates an incentive to locate jobs there as well. A U.S.-based firm that invests and reinvests overseas without ever returning the profits home becomes completely immune from taxes on its foreign profits.

**Two Loopholes Cause Export of U.S. Jobs** — Together, the foreign tax credit and the deferral process provide great benefits to corporations that move production and jobs to other countries. These two tax schemes assume that corporations can avoid U.S. taxes whether they invest in high-tax or low-tax countries. Deferral encourages investment in low-tax countries because the corporation pays no U.S. taxes and low foreign taxes until profits are returned home.

The foreign tax credit helps corporations to avoid U.S. taxes, even when they invest in high-tax countries. In such cases, they pay no U.S. taxes, and get excess

Chart 3-21




credits which often can be used to offset taxes due on profits returned from low-tax countries.

A firm that chooses to move production to another country not only injures the workers who lose their jobs, but adds insult to that injury by sending part of the bill to U.S. taxpayers.

**The Drain On The Nation's Revenues —** For 1990 (the latest figure available), U.S.-based multinational corporations used foreign tax credits to reduce their income tax bills by $25 billion. The AFL-CIO estimates that treating the credit as a deduction would have raised an additional $16.5 billion in federal revenue. The Joint Tax Committee of Congress estimates that ending deferral would increase revenues by another $1 billion.

**Transfer Pricing Abuses —** Another area ripe for scrutiny is the use and abuse of transfer pricing rules in U.S.- and foreign-based multinational corporations. Permissive rules coupled with inadequate resources for IRS enforcement have enabled multinational corporations to use transfer pricing — the allocation of overhead and intra-corporate interest payments — to game the system at the expense of the U.S. Treasury with virtual impunity.

Not only do U.S. corporations avoid paying billions of dollars in U.S. income taxes, in recent years, highly profitable foreign-based multinational corporations such as Toyota and Honda have utilized the same or similar gimmicks to pay minuscule amounts of U.S. income tax.

Professors John Zdanowicz and Simon Pak of Florida International University estimate that the Treasury lost at least $28.7 billion due to such transactions in 1992.

The net impact of the foreign tax credit, deferral, transfer pricing loopholes and other corporate tax breaks is substantial. According to a 1993 National Bureau of Economic Research study by Rosanne Altshuler and T. Scott Newlon, a sample of 340 U.S.-based multinational corporations having foreign-source income of $47.3 billion in a recent year paid U.S. taxes of only $1.6 billion on that income, for an effective U.S. tax rate of only 3.4 percent.

**Job-Destroying Mergers and Acquisitions —** The tax code has also contributed to, and indeed encouraged, speculative activity by corporations and investors, such as unproductive mergers, leveraged buyouts and acquisitions. Corporate restructurings leveled off in the late 1980s but are once again accelerating. By allowing expenses related to these activities to be fully tax-deductible, especially interest expenses associated with restructuring-related debt, the tax code has in effect subsidized the destruction of jobs.

# The Safety Net is Under Attack

America's safety net is under attack — and more Americans are dropping through it.

Some 40 million Americans live in poverty — and the 14.5 percent overall poverty rate is higher than it was from 1967 to 1982 and from 1984 to 1991. One out of five children in America lives in poverty.

Working people also suffer from the fraying safety net. The nation's unemployment insurance system protects fewer and fewer jobless workers. In 1975, about 65 percent of all unemployed workers got unemployment compensation. In 1995, only 35 percent got unemployment benefits.

And 40 million Americans now have no health insurance — a big jump from 31 million in 1987. Too much of negotiated pay packages go into rising health plan costs instead of going into workers' paychecks. Too often, workers have to go on strike to keep employers from cutting their negotiated health benefits.

Fewer workers have employment-related health insurance coverage. In firms with 100 or more employees, health insurance coverage of workers has dropped from 97 percent in 1981 to 83 percent in 1991. More than a third of workers in small firms have no health insurance, and those who do pay more for it than workers in bigger companies. Public workers are likely to have health insurance, but they too are paying more for family coverage.

Also, fewer workers have good employer-provided retirement plans. The number of workers covered by low-risk defined-benefit pension plans has dropped 30 percent from 1981 to 1991. And even coverage of workers in higher-risk plans has dropped 10 percent from 1985 to 1991.

A range of other government programs help elderly, sick and disabled people, children, veterans and working people, such as Social Security, Medicare, Medicaid, minimum-wage laws, Aid to Families With Dependent Children and welfare, consumer protection, clean air and water, environmental protection, occupational safety and health and air traffic safety; many the targets of Republican budget cuts. For example, the Urban Institute estimates that 4 million to 9 million Americans will lose health care protection if the Republican Medicaid bill is enacted.

The safety net is far from perfect, but it does provide a basic minimum decent standard of living for many Americans who would otherwise end up on society's scrap heap.

## Republican Attack on OSHA, FLSA and NLRB

The radical right agenda of the Republican majority in Congress and their anti-union corporate supporters is bad news for America's workers. OSHA funding would be cut deeply, and its authority to set badly needed and long overdue new standards for workplace health and safety would be sharply curtailed. NLRB funding would be cut deeply, further undermining the already inadequate ability of that agency to assure justice on the job. The NLRB's ability to use injunctions to curb the worst employer abuses would be practically eliminated.

Wage-and-hour laws that have been in place since the 1930s would be weakened, with repeal of the eight-hour day and 40-hour week. Republican House Majority Leader Richard Armey's proposal on the minimum wage is to do away with it altogether.

Not content with sharp restrictions on what government does to protect workers, the corporate agenda em-

Chart 3-22

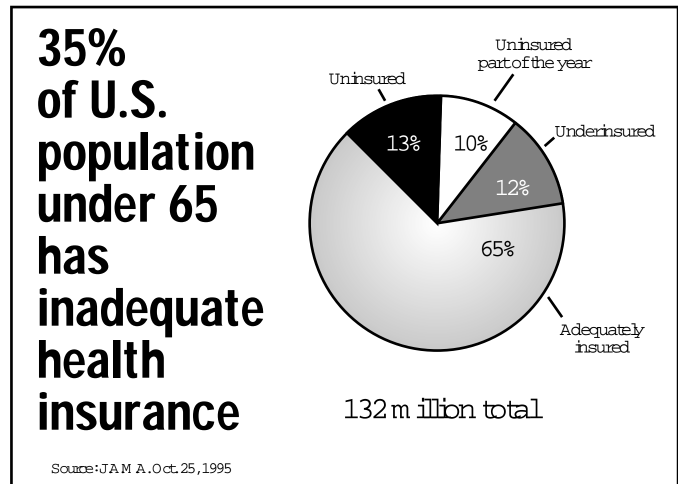
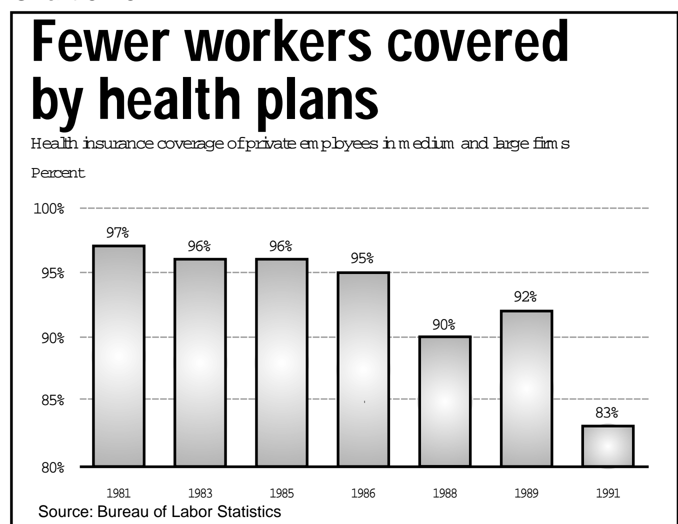
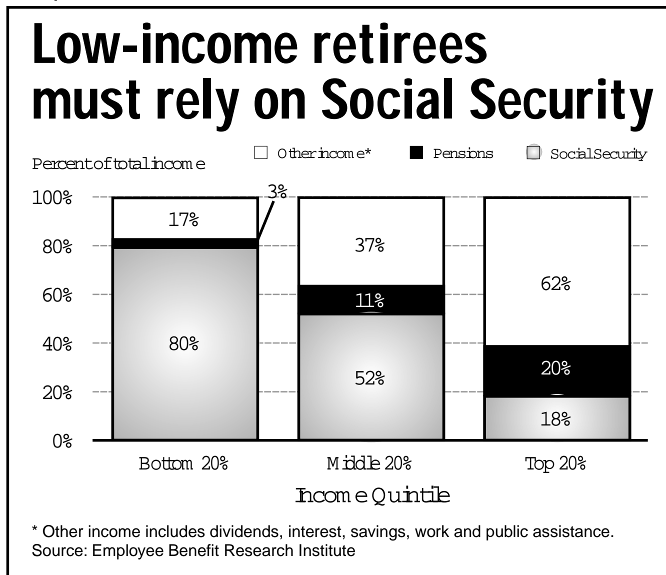



Chart 3-23



Graph 3-24




* Other income includes dividends, interest, savings, work and public assistance.
Source: Employee Benefit Research Institute

braced by the Republican majority in Congress would also limit even further what workers can legally do to protect themselves.

Company unions would flourish again at the expense of legitimate unions and genuine workplace representation if the Republicans' so-called TEAM Act became law. President Clinton's executive order to deny federal contracts to companies that use striker replacements was overturned by the D.C. Court of Appeals, but the Republicans had already tried to deny funds for the order's enforcement. Corporate campaigns to defend workers' interests against the most vicious employer attacks could defined as illegal racketeering and restraints of trade if the Republicans get their way.

The threat to the wages, economic security and future opportunities of American workers and their families posed by this right-wing Republican agenda is serious and it is real.

**American Federation of Labor and**
**Congress of Industrial Organizations**
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202-637-5000

**John J. Sweeney**
*President*

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