Labor and the Producer Society

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AUGUST 2011

Our country is struggling to find a way out of overlapping economic crises. One is cyclical: an agonizingly slow, jobless recovery from a recession made worse by a financial crash. The other crisis is structural. Our economy suffers from a dearth of capital investment and innovation, mismatches between workers' skills and available jobs, and unsustainable budget and trade deficits.

Even before the recession struck late in 2007, the Great American job machine was sputtering. According to a recent report by the McKinsey Global Institute, "Between 2000 and 2007, the United States posted a weaker record of job creation than during any decade since the Great Depression."[1] Not only are good jobs vanishing, wages have been falling for all but the top U.S. earners.

One explanation for America's ebbing dynamism is a long pause in innovation. Since 2000, technological advances have stalled, outside of the dynamic communications industry. In particular, tighter regulation—for good or for bad—appears to be slowing innovation in the healthcare sector.

Research from the Kauffman Foundation also points to a loss of entrepreneurial verve. The number of business start ups, which Kauffman says generate most of U.S. net job growth, has plummeted by about a quarter since 2006.[2]

If there's a bright spot in the U.S. economy, it's the recovery of corporate profits and stock prices since 2009. Yet these developments also highlight a stark inequity: Returns on capital are up, but returns on labor are down.

The U.S. economy seems to have arrived at an inflection point. As the Obama administration puzzles over how to rekindle growth, one thing should be clear: There can be no going back to the old economic model of debt-fueled consumption, where U.S. households borrowed to maintain their living standards, aided and abetted by government deficits.

This policy mix produced an illusory prosperity based on big fiscal and trade imbalances, bonus-fueled speculation leading to recurrent financial bubbles, and overinvestment in housing and health care. It's left us with a legacy of anemic growth, crippling debt and growing inequality that will take years to undo.

Toward a Producer Society

It's time to stand the old economic model on its head. America needs a new economic strategy that stimulates production rather than consumption; saving rather than borrowing; and exports rather than imports. Instead of more fiscal stimulus, this strategy would emphasize investment in the nation's physical, human, and knowledge capital—infrastructure, workforce skills, and science and technology. Rather than making the pursuit of low-priced goods the Holy Grail of economic policy, it would give priority to enlarging the nation's productive capacity. That is the best way to raise U.S. wages and living standards.

Creating jobs—and good jobs that reverse the decline of middle class incomes—must be the singular focus of national economic policy-making. This means ensuring that U.S. workers acquire skills needed to increase their share of the world's best jobs. It means scaling up manufacturing in the United States, which is particularly important to lifting the job prospects of non-college educated workers. And it means removing tax and regulatory impediments to innovation and new business creation.

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The shift from a consumer to a producer society scrambles traditional ideological categories and political alliances. Liberals are right that we need a dramatic boost in public investment, and should pay for it with a combination of spending cuts and higher tax revenues if that's necessary to avoid more borrowing. But rebooting the U.S. job machine also will require actions straight out of the conservative playbook, such as cutting taxes on entrepreneurs, and telling regulators to take a lighter hand in order to encourage investment in innovative industries.

Put another way, it will take both a more dynamic private sector and a more strategic public sector to create the optimal conditions for a U.S. economic rebound. Today's witless "government vs. markets" debate in effect ties one hand behind America's back in economic competition.

In a world with cheap labor and rapidly narrowing technology gaps, a wealthy society like ours can only thrive by speeding the pace of innovation and capturing its economic value in jobs that stay in America. If we are serious about unleashing entrepreneurship and innovation, we will radically revamp tax and regulatory policies that inhibit them. We will look at the shale gas revolution as a national windfall, since by lowering energy

costs it will make the United States a more attractive place for advanced manufacturing. We will invest heavily in technical education to meet rising demand for workers with middle-level skills.

Building a producer society, in short, will require old antagonists – liberals and conservatives, workers and bosses – to rethink old economic assumptions. Progressives will have to decide which they want more: the psychic satisfactions of bashing "big business" or America's economic resurgence. Conservatives will have to decide whether they are more interested in low taxes than the world-class education and infrastructure necessary to attract job-creating investment here.

While a producer society favors open competition and eschews protectionism, it will also get tough on the neo-mercantile policies of China and other foreign governments that expropriate U.S. technology and routinely violate free trade principles. To rectify today's immense trade and fiscal imbalances, Americans must make more goods at home and sell more goods abroad.

A New Labor-Business Compact

The shift from a consumer-oriented to a producer-centered society won't happen without a new partnership between labor and business. In the post-war compact of the 1950s and 1960s, workers offered loyalty and labor offered peace to companies in return for stable jobs with decent pay and benefits.

The deal between labor and capital changed as globalization took hold. Workers gave up job security; in return, they were supposed to receive low consumer prices and access to easy credit. In theory, the new arrangement was supposed to boost purchasing power and give workers more control over their own careers and economic security. Even if they lost their jobs, workers could borrow to keep themselves afloat and even finance their own retraining.

In practice, the new arrangement did not work as expected. Despite access to cheap foreign goods, real incomes fell for most households, as real wages dropped and job growth in most parts of the private sector virtually disappeared. Easy credit was used to fund consumption rather than investment in human capital.

At a time when America's economic preeminence can no longer be taken for granted, the interests of U.S. workers are converging with those of companies, domestic and foreign, that want to invest in the U.S. economy. In a new compact, workers would pay more attention to innovation, workplace flexibility, and productivity gains to ensure their employers can compete. Companies would invest more in upgrading their employees'

skills, help them balance the pressures of work and family, and pay them middle class wages and benefits.

Most U.S. workers are not members of organized labor. But it is encouraging nonetheless that some labor leaders are rethinking old assumptions about the relationship between labor and capital. In the context of a relatively self-contained U.S. economy, in which foreign trade figured little, labor naturally saw itself as the counterweight to capital. Its role was to extract from capitalists decent working conditions, pay, and benefits. The bosses, for their part, could pass on higher labor costs to customers in the form of higher prices without fear of being undercut by foreign competitors.

Ultimately, labor's best hope is to rebuild its strength in the private economy. One way it can do that is by forging collaborative relationships with companies that are investing, innovating, and creating good jobs in America.

Obviously, the days of economic insularity and stability are long gone. Rapidly integrating global markets, high labor costs, rigid work rules, and unsustainable pension promises have helped to cost some U.S. firms out of competition. Rather than demand a greater share of company profits, unions in recent times have been forced to offer givebacks: reductions in pay and benefits, and changes in work rules intended to create more flexible, team-oriented workplaces. Even so, many companies continue to offshore production and too many investors seem leery of expanding capacity in the United States.

For decades, U.S. unions have sought to compensate for losses in the real economy by flexing their muscles in the political arena. No doubt this strategy has delivered some short-term electoral gains. But as PPI has documented, labor's electoral heft is dwindling along with its membership.[3] (Public sector unions have grown, but have drawn fire around the country as states struggle with the fiscal consequences of generous health and pension benefits.) More fundamentally, even friendly politicians can't roll back the economic changes that have undermined old-style unionism. Ultimately, labor's best hope is to rebuild its strength in the private economy. One way it can do that is by forging collaborative relationships with companies that are investing, innovating, and creating good jobs in America.

The UAW's New Vision

A major U.S. labor union that is fundamentally rethinking its economic role is the United Auto Workers. As recently as late 1970s, UAW was America's biggest and most influential union, with 1.9 million members. Now that's shrunk to 400,000.

But its new president, Bob King, is not content to watch the UAW wither on the vine. He has launched an ambitious effort to reinvent the industrial union. King eschews labor's old confrontational stance toward employers.

"The 21st century UAW views management not as an adversary and the enemy, but as a partner," he says.[4]

King continues, "The 20th-century UAW joined with the companies in a mind-set that it was the company's job to worry about profits, and the union's job to worry about getting the workers their fair share. The 21st-century UAW embraces as our own the mission of producing the highest quality, best value products for our customers."[5]

U.S. autoworkers face intense competitive pressures. They've given up raises, bonuses and cost-of-living increases. In a dramatic break with tradition, they've agreed to a two-tier wage system in which new hires early only $14 an hour, about half what longtime production workers earn. As painful as they are, such concessions (and the government bailout) may be keeping U.S. automakers in the game. Their labor costs have declined from $75 to $58 an hour in wages and benefits, nearly matching Toyota's North American cost of $52 per hour.[6]

More adventurous yet, the UAW is experimenting with profit-sharing plans. This year, 48,000 members got profit-sharing checks averaging $4,300. Such plans give workers a direct stake in their company's success, while variable labor costs help their employers compete against nonunion U.S. plants and foreign production.

The UAW also says it wants to jettison long contracts replete with work rules that hinder flexibility and thereby make their employers less competitive. Union officials are betting that a credible commitment to competition also could help them organize the nonunion U.S. plants of foreign carmakers such as BMW and Toyota.

CWA: Putting Investment and Jobs First

Another union that is breaking the mold is the Communication Workers of America (CWA). For example, it has strongly endorsed AT&T's proposed $39 billion acquisition of T-Mobile, noting that the investment related to the merger could create up to 96,000 new jobs in the U.S. This has put CWA at odds with consumer groups, which have condemned the merger as a bid to reduce competition in the lucrative mobile phone/internet sector, arguing that this will dampen incentives for innovation and raising consumer prices.

CWA represents 43,000 AT&T wireless workers and regards the company as reasonably union-friendly. The merger would give CWA a better shot at organizing nonunion T-Mobile workers in the United States. For those workers, being absorbed into AT&T will mean "better employment security and a management record of full neutrality toward union membership and a bargaining voice," says CWA President Larry Cohen.[7]

But the main reason CWA welcomes the merger is its potential impact on innovation and jobs. Michael Mandel, PPI's chief economic strategist, notes that AT&T reported nearly $20 billion in capital spending in the U.S. in 2010, top among nonfinancial firms. And in connection with the merger, AT&T has committed to build-out an advanced new mobile broadband service, known as Long Term Evolution or LTE, to more than 97 percent of the U.S. population. Another telecommunications firm, Comcast, also is a major domestic investor. In general, says Mandel, the telecommunications sector is a rare innovation success story, thanks largely to investments in technology that led to the boom in smart phones and the mobile internet.[8]

CWA's Cohen also points to a national project that would be good for both U.S. workers and employers: building modern infrastructure to underpin America's ability to win in global markets. "For more than a decade, the United States has continued to drop behind nearly every other developed economy on broadband speed and build out," he said.

Organized or not, U.S. workers should think of themselves first and foremost as producers rather than consumers. They have a compelling interest in keeping the companies they work for competitive.

In fact, a big national infrastructure push represents common ground on which big labor and big business can meet. In an "odd couple" pairing earlier this year, AFL-CIO President Rich Trumka and Tom Donahue, head of the U.S. Chamber of Commerce, teamed up to endorse a bipartisan proposal for a National Infrastructure Bank. If labor and business can get behind an ambitious project for "internal nation building," our equally polarized political parties ought to be able to follow their example.

No less than workers and employers, government also needs to rethink its role in labor-management relations. Instead of acting as a neutral arbiter in the age-old struggle between capital and labor, government should reinforce the kinds of strategic partnerships the CWA and UAW are forging with employers. By linking increases in private investment to new job opportunities for U.S. workers, such partnerships can spark the nation's economic resurgence.

America's "Investment Heroes"

The UAW and CWA examples point the way toward closer collaboration among the productive forces in our society. Organized or not, U.S. workers should think of themselves first and foremost as producers rather than consumers. They have a compelling interest in keeping the companies they work for competitive, and in supporting a new economic policy framework that enables investment, entrepreneurship, and domestic production. This suggests the need for new political outlook and new political alliances.

This is not an argument for uncritical acquiescence in whatever employers or financial markets want. In fact, the ethos of a producer society is diametrically opposed to that of "shareholder capitalism," which seeks only

to enrich equity owners and cares nothing for workers or the communities or country they live in.

For that reason, workers should draw distinctions between businesses that are making substantial bets on the U.S. economy, and those that are plowing their profits into other countries where they think they can find a higher return. PPI has referred to the former as America's "Investment Heroes." The list includes top telecommunications firms like AT&T, Verizon, and Comcast, major energy companies, and perhaps surprisingly, Walmart. While many firms have been hoarding their cash during the painfully slow economic recovery, these companies have made major capital investments in the United States.

Workers also should rethink alliances with "pro-consumer" activists whose reflexive suspicion of business can blind them to the ways innovation and job-creation actually work. In controversies over mergers and acquisitions, for example, such groups typically focus on the hypothetical impact on consumer prices, rather than on the bigger picture of economic investment, innovation, and jobs. Such a narrow view might have made sense when U.S. companies bestrode international competition like giants. Now it reflects a failure to think strategically about how to reverse America's economic decline.

When labor markets are tight, it's easy to forget that consumers in the first instance are workers. Before they can consume and take advantage of low prices, they must earn money. If there's a paucity of jobs, and if wages fall instead of rising, most workers will not be able to consume more—unless they go into debt to do so— regardless of marginal differences in prices. And if consumption rises, it usually means Americans buy more low-cost imports, and wind up stimulating jobs in other countries.

Conclusion

No country, even one as wealthy and fundamentally sound as ours, can afford to consume more than it produces indefinitely. It's time to refocus our nation's energies on building a more dynamic, democratic capitalism that leads the world in innovation, generates good jobs in abundance, and raises returns to both labor and capital.

Endnotes

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