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# **Will Workers Benefit from this Economic Recovery?**

## **A Review Essay**

**of**

*The State of Working America 2008/2009*, Lawrence Mishel, Jared Bernstein, and Heidi Shierholtz, Economic Policy Institute and Cornell University/ILR Press

Thomas A. Kochan  
August, 2009

### Abstract

Every two years staff at the Economic Policy Institute publishes a labor market and employment sourcebook. *The State of Working America 2008-09* is an especially important and valuable contribution. It documents how poorly working families fared in the period prior to the recent economic crisis and therefore provides a benchmark for assessing whether current economic recovery policies will reverse these trends. I draw on the data and analysis presented in this volume to suggest policy actions needed to do so.

Key words: labor market and employment data, public policy, working families

Every two years the staff at the Economic Policy Institute (EPI) publishes an analysis of *The State of Working America*. The 2008-09 edition co-authored by Larry Mishel, EPI's President, Jared Bernstein (now Vice President Biden's chief economist) and EPI economist Heidi Shierholtz, is especially important because it documents how little working Americans have shared in economic growth in the past two decades. Nor did average income families gain any ground at all since the end of the recession in 2001. Now that the country is at what hopefully will be the nadir of the worst economic collapse since the Great Depression, the question is whether workers will fare better in the next economic recovery.

Like previous volumes, this book serves as an excellent and comprehensive sourcebook of economic and labor market data for anyone seeking to put current developments in a longer term perspective. The chapters cover trends in wealth, income, and poverty; jobs, labor force participation, unemployment, and hours of work; and wages, health insurance, and other aspects of compensation. A welcome addition to this volume is a chapter using data from other countries in the Organization for Economic Cooperation and Development (OECD) to provide international comparisons on most of these issues.

So what *was* the state of working America just *before* the economic collapse? While it is impossible to summarize all the data reported here in a few sentences, the following facts stand out. Compared to other OECD countries, America has the highest proportion of working poor and the highest degree of income inequality. The average income family experienced no increases in income over the 2000-2007 economic cycle, something that has not happened any time since the 1940s. This is not because Americans work less than their international counterparts. On the contrary, average Americans work about four weeks longer per year than those in other OECD countries. And some of these countries with stronger social safety nets are equally or more productive than the US. Norway and the Netherlands in particular stand out for having high levels of income security and flexibility in labor markets and achieve higher productivity and living standards than the US.

It is the longer term trends documented the volume that pose the biggest challenges for current policy makers. From the 1940s through the 1970s wages and productivity moved largely in tandem and helped create a robust middle class that supported consumer

led economic growth. This ended in 1980 and has never recovered. Since then productivity grew over 70 percent while wages for the median worker remained essentially stagnant up until the recent economic collapse. The bottom line conclusion of these authors is that American workers have lost their bargaining power and as a result have been receiving a declining share of the economic growth they help to achieve.

These were the long term trends the Obama Administration inherited when it took office. But then came the collapse of the country's financial sector that gave rise to the deepest economic crisis since the Great Depression. By August 2009, the official unemployment rate had risen to 9.7 percent. But this standard metric masks the number of workers and families affected by the collapse. Almost 7 million jobs have been lost. Nearly 20 percent of the workforce is unemployed, unable to find a full time job, or has given up on looking for one. Half have seen wages frozen or cut directly or through reduced hours or temporary furloughs.

The new President had little choice but to first stabilize the nation's financial system and economy, and those actions have definitely helped reduce the rate of job loss. But many workers still feel left out of the economic recovery efforts. If the Administration's economic policies are to really pay off, and if the longer term trends documented in *The State of Working America* are to be reversed, workers and workplace issues will need to be put at the center, not the margins, of policy making.

Given the bottom line conclusion of *The State of Working America* is that workers have lost their bargaining power, what policy actions might be taken to address this issue? Can it be addressed in ways that foster both improvements in wages and working conditions and improved productivity and overall economic performance? Or are we

destined to endure continuation of the mindset that views workers and their employers (and by implication the overall economy) stuck in a zero sum game? Fortunately, there are answers to these questions that could pave the way for a new labor and employment policy that engages workers in ways that allow them to both contribute to and share equitably in future economic growth.

Two decades of research, for example, shows that major investments such as those included in the stimulus bill being made to repair the nation's infrastructure and rebuild and transform the auto industry can reap maximum benefits only if they fully engage workers' knowledge and skills to achieve high productivity and service quality, and by doing so, trigger wage growth (Appelbaum, Hoffer Gittell, and Leana, 2009). But because such goals require modern, innovative, and cooperative labor management relations, Congress and the Administration must take specific steps that clearly link labor and workplace policy issues to the economic agenda.

Beneath all the heated debate about health care reform, for instance, lies the well-documented reality that health care quality improvement and cost reduction require a high level of coordination, engagement, and teamwork in health care delivery, from doctors and nurses to technicians and service workers (Hoffer Gittell, 2009). Proven examples, such as Kaiser Permanente and the coalition of unions that represent its employees and the League of Voluntary Hospitals in New York and Service Employees Local 1199, demonstrate the health care quality and economic benefits that flow from such cooperative, partnership-based, labor management relationships (Kochan, Eaton, McKersie, and Adler, 2009). A new agreement governing union organizing has been reached among Catholic employers, including Catholic health care providers, and labor

organizations seeks to embed these principles their relationships. Such practices and agreements should be required of all health care providers, unions, and professional associations.

Other economic sectors receiving public money should be held to the same principles. The investments in infrastructure repair and green technologies will create a large number of new publicly funded construction projects, many of which will take place in communities where residents have never had access to good paying construction jobs. One of the first acts of the Obama Administration was to sign an Executive Order encouraging use of “Project Labor Agreements” for these projects, i.e., compacts between the local labor movement and construction contractors that cover prevailing wages and assure labor peace for the duration of the project. These need to be encouraged but they must also ensure that community residents are given access to training and job opportunities and that modern management and labor practices be followed to bring these projects to completion on time, on budget, and safely.

Rebuilding the bargaining power of workers also requires that labor law reform finally be enacted in a way that restores workers rights to join a union and gain collective bargaining agreements. Again, there is a large body of research evidence supporting the need for both reform and transformation of labor law and labor relations practice. It has long been known that laws that fail to protect workers’ rights are also a serious drag on wage and productivity growth and make true labor-management cooperation impossible (Freeman and Medoff, 1984; Kochan, Katz, and McKersie, 1986; Black and Lynch, 2004). The most recent and most comprehensive study of the organizing and first contract negotiations process shows that less than 20 percent of organizing drives are able to

achieve a first contract. If faced with employer opposition in the form of an unfair labor practice, this number falls below 10 percent. Even among those that win elections, only 56 percent are able to achieve an agreement (Ferguson, 2008). So the Vice President's taskforce focused on rebuilding the middle class that Jared Bernstein now coordinates will not be successful without significant reform and transformation of the nation's labor law and labor relations system.

The labor movement has pressed for a reform bill called The Employee Free Choice Ac. But Congressional action on it has been delayed because of the higher priorities of the economic stimulus program, health care reform, and other pressing matters. As of this writing, serious discussions of a compromise version of this bill are underway in Congress. The Obama Administration should actively engage in these talks to help shape the Employee Free Choice Act into a more acceptable bill by insisting on provisions that foster the kinds of partnership-based labor management relationships that workers want and that are essential if wages are to again move in tandem with productivity and economic growth. This would address both the need for reform and for transformation and modernization of our labor relations system.

The new Administration also inherited a dysfunctional Department of Labor. The department's role has been steadily diminished in influence in recent Administrations and its enforcement budgets have been cut, in some cases quite dramatically. But given the pressures on the federal budget, the department will never get enough resources to do its job of enforcing and upgrading basic labor standards by simply following traditional strategies that rely on inspections, fines, and litigation. To be sure it needs to beef up and vigorously enforce the nation's employment laws against the most egregious violators

and is already taking steps to do so. But it also needs to modernize its enforcement strategies by engaging workers, unions, community organizations, and employers in coordinated, meaningful efforts to upgrade safety and health, wage and hour, and equal employment opportunity practices. This “two track” enforcement model would leverage public resources and help build private sector capacity and support for upgrading standards. A variety of strategies for doing so have been suggested, and in some cases, tested in state, industry, or community level experiments. And given the proliferation of worker centers in communities around the country, a host of new community organizations are ready to serve as local agents that can leverage government enforcement efforts. Other ideas such as expanded use of voluntary joint safety and health programs, alternative dispute resolution systems for avoiding long and expensive litigation processes, and industry level technical assistance programs to help small firms bring their practices up to standard all could contribute to improving the state of working America.

If the integrated labor policy outlined above is put in place for the domestic economy, the US can then hold its trading partners to the same objectives driving US policies. This will require reframing the debate over trade from one that asks whether or not to embed labor standards in trade agreements to one that asks how the US can hold global firms and the governments of its trading partners accountable for meeting and upgrading labor standards in tandem with productivity and economic growth and assist them in developing the capabilities needed to do so. That is, including labor standards in trade agreements should be viewed only as a first necessary but far from sufficient component of trade policy. The other components need to focus on marshaling



government (U.S. and developing countries') and private sector resources to enforce and upgrade labor standards.

For the past several years a joint MIT-Stanford research and action project has been examining how the global supply chains of transnational companies interact with government policies, NGOs, and union organizations to affect compliance with international labor standards. Groups have been brought together to discuss this work and debate the effects of codes of conduct and monitoring systems that a growing number of transnational firms have put in place and the role of NGOs, unions, and national government policies (Locke, et al 2007). The results of this work show that comprehensive codes of conduct and monitoring either through corporate audits or corporate audits done jointly with independent NGOs have a significant, positive effect in enforcing and improving labor standards. But the effects are limited, uneven, and difficult to sustain on their own. In what are believed to be best case examples, these code and monitoring systems achieve compliance rates of between 50 and 60 percent of their targets. Moreover, compliance tends to be more likely to be achieved on substantive outcomes such as workplace safety and child labor standards than on hours of work (overtime) or freedom of association. Codes also have a larger impact in countries that have more fully developed rules of law, suggesting that government policies are complements, not substitutes, for national laws governing employment standards. Finally, the impact of corporate codes is enhanced when corporations move beyond arms-length compliance strategies by working with suppliers and contractors to improve labor conditions and practices as part of their operational strategies to improve plant and supply chain productivity and quality. These research findings suggest that US transnational

firms can and should be held accountable for complying with minimum labor standards throughout their full supply chains. Moreover, the transnational firms that are leading the way in monitoring their codes of conduct throughout their supply chains can provide the same extended leverage to government enforcement initiatives that leading practice firms and unions supply to domestic enforcement initiatives as suggested above.

A parallel body of research on labor regulation in developing countries has demonstrated the merits of following a strategy similar to the “two track” approach advocated for enforcing domestic standards, i.e., mixing rigorous enforcement of employment standards with the most repeated or egregious violators with an active technical assistance program for firms willing to learn how to manage their production and labor practices to achieve high levels of performance and compliance with standards (Piore and Schrank 2007). This approach has been gaining considerable momentum under a number social democratic governments in Latin America (e.g., in Brazil, Chile, Costa Rica, and the Dominican Republic). These countries have also followed the French integrated approach to enforcement, investing responsibility for enforcement for all labor standards (e.g. minimum wages, overtime, safety and health, etc.) in a single agency. The US government should fund technical assistance (perhaps in conjunction with the ILO) to upgrade this “two track” mix of enforcement capabilities of our trading partners.

These are the policy ideas that I draw from the data and analysis provided in the 2008-2009 edition of this valuable sourcebook. My hope is that a copy of this book is found on the desk of every official in the Department of Labor and that Jared Bernstein puts it on the table of each economic policy meeting at the White House. After all, they can expect the authors of the 2010-2011 edition of *The State of Working America* will

hold their feet to the fire by documenting whether or not this Administration's efforts have launched an economic recovery that reverses the longer run trends summarized in this volume.

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