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Committee on Education and Labor

"Strengthening America's Middle Class:
Finding Solutions to Help America's Families"

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Thank you, Chairman Miller, members of the Committee. I welcome the opportunity to be here today to testify on behalf of the 10 million working men and women of the AFL-CIO and share our views on economic solutions to help America's middle class.

Any consideration of the American economy today must address one simple, but central, question: "Why, in the richest country in the world, is it so difficult for so many families to make a living by working?"

The U.S. economy is now producing over $13 trillion a year and, despite a recent slowdown, has been growing at a respectable, if not spectacular, three percent a year. American workers are the most productive workers in the world, and they are more productive today than ever. Americans work hard and log more hours than workers in any other developed country.

Nevertheless, the vast majority of Americans are struggling to maintain their living standards in the face of stagnating wages, rising economic insecurity, eroding health care and retirement benefits and mounting debt. At the richest moment in our nation's history, the American Dream is fading for a majority of American workers.

We can, and must, do better. But doing so requires us to fundamentally rethink our country's economic policies.

We must restore the promise of America – that all of our citizens can expect that by working hard and playing by the rules, they can participate fully in the benefits of a rapidly growing and competitive national economy.

The Fading American Dream

American workers are suffering a now generation-long stagnation of family income and rising economic insecurity.

Since 1980, labor productivity has increased over 80 percent, but the real median wage has hardly budged, increasing only 2 percent over a quarter century. Real median family income has increased a modest 13 percent over this period, but only because each job requires more hours, each worker is working more jobs and each family is sending more family members to work.

When wages advanced with productivity from 1946-73, we grew together as a nation. Since then, increasingly, we are growing apart -- economically, socially and politically. As a result of the rupture between wages and productivity, an enormous redistribution of income – perhaps the largest in our history – has occurred from poor and working Americans to the top twenty percent of our families. Today, America has the most unequal distribution of income and wealth of any developed country in the world. And income and wealth are more unequally distributed in America today than at any time since the 1920s.

Moreover, the volatility of family income -- and with it the economic anxiety so many feel -- has increased sharply over the same period. Jacob Hacker, the Yale political scientist, estimates that the chances of a family suffering a 20 percent or greater decline in its income over a two-year period have doubled since 1980.

Rising health care costs and dwindling retirement assets are aggravating the econom ic anxiety of working families. Retirement security is fast becoming a goal beyond the reach of most Americans. Our private pension system is fraying, with fewer workers now covered by pension plans. Companies increasingly view bankruptcy as a business strategy to eliminate pension obligations. Even healthy companies with marquee names and well-funded plans are reneging on decades-old commitments to help provide their employees with a secure retirement.

Although workers' ability to achieve retirement security has long been premised on a system of mutual responsibility – government-provided Social Security, employer-provided pensions, and personal savings – only Social Security now guarantees a universal benefit.

Only half of American families have an employer-provided retirement plan of any sort, a proportion largely unchanged for decades. However, whereas 40 percent of workers participated in employer-guaranteed “defined benefit” pension plans in 1980, today only 20 percent have such plans. In substituting “defined-contribution” for defined-benefit plans, employers are shifting the risk of retirement onto workers. And American workers are ill prepared to carry this risk.

And, as health care costs continue to rise, employers shift more and more of the cost of health care onto the shoulders of American workers. Again, working families with stagnating earnings are in no position to shoulder these costs, so the ranks of the uninsured continue to rise. Today over 46 million Americans have no health insurance at all, despite the fact that as a nation we spend more on health care than any country in history.

The increased volatility of income and increasing burden of risk for family health care and retirement security are exacerbating the acute anxiety that so many working families are feeling.

Failed Economic Policies

There are many contributing causes to the stagnation of wages and the rupture of the productivity-wage relationship over the past thirty years. Central to them all is a steadily growing imbalance of bargaining power between workers and their employers. The implicit “social contract” that allowed Americans to grow together, and build the American middle class, in the early post-WWII decades rested on a rough balance of power between workers and their unions on one side and employers on the other.

Today, this balance of power has eroded and the social contract with American workers is unraveling. America’s CEOs, who once viewed themselves as stewards of our country’s productive assets, now present themselves as agents of shareholders in whose name they aggressively shift good American jobs off-shore, reduce workers’ pay and walk away from their health care and retirement obligations.

American corporations are facing two enormous challenges that have changed the way they do business and are poisoning their relationship with their employees. The first is intense competition in product markets – exacerbated by globalization abroad and deregulation domestically. The second is pressure from institutional investors in capital markets to increase shareholder value by raising profit margins.

If corporations must increase margins, but cannot raise prices, they must reduce costs. And most of the costs of business are in employee compensation in one form or another. Therefore, “the market,” as business leaders say, is forcing American corporations to aggressive reduce compensation costs however they can: by outsourcing and off-shoring work, by reducing worker pay and by shifting the costs of health care and retirement onto workers. These same forces are behind corporate demands to lower the tax and regulatory burdens in the name of "competitiveness."

The shift in economic policies in the late 1970s from a "Keynesian consensus" to what George Soros has called "free market fundamentalism" explains much, in my view, about changing corporate behavior, the imbalance of power between workers and their employers, stagnating wages and the growing divide between productivity and wages.

The policies that make up "free market fundamentalism" are like a box that is systematically weakening the bargaining power of American workers, constraining their living standards and driving the growing inequality of income and wealth in our country.

On one side of the box is "globalization," unbalanced trade agreements that force American workers into direct competition with the most impoverished and oppressed workers in the world, destroy millions of good manufacturing jobs and shift bargaining power toward employers who demand concessions under the threat of off-shoring jobs. On the opposite side of the box are "small government" policies that privatize and de-regulate public services and provide tax cuts for corporations and the wealthy, all to "get government off our backs."

The bottom of the box is "price stability." This leads to unbalanced macro-economic policies that focus exclusively on controlling inflation and neglect the federal government's responsibility to "maximize employment," even out the business cycle and assure rapid economic growth.

The top of the box is "labor market flexibility," policies that erode the minimum wage and other labor standards, fail to enforce workers' right to organize and bargain collectively and strip workers of social protection, particularly in the areas of health care and retirement security.

Each of these economic policies – "globalization," "small government," "price stability" and "labor market flexibility" – may sound innocent enough. But they each undermine the employment security of American workers. And together they powerfully weaken the bargaining power of workers and provide corporations with both the incentive and the means to enrich themselves at the expense of their employees.

Restoring America's Promise

To balance bargaining power between employees and their employers, rebuild the relationship between wages and productivity and restore America's promise, we must begin by reflecting on the purpose of the economy and the goal of the economic policies that guide our country's economic development.

Do Americans as workers exist to serve the needs of the economy? Or does the economy exist to serve the needs of Americans, the vast majority of whom earn their living by working? In our view, the economy exists to serve the needs of the American people, not the other way around.

The goal of economic policy should be to support a strong and internationally competitive national economy whose benefits are shared broadly by all Americans. To achieve this objective, we must reconnect with four important economic values that resonate powerfully with all Americans.

Our country's economic policies should (1) provide for full employment; (2) protect the right of workers to choose to unionize if they want to; (3) reform our global economic policies to prioritize good jobs and a fair distribution of the benefits of globalization; and (4) ensure that people who work for a living earn a wage that keeps them out of poverty and have access to affordable and adequate health care and retirement security. :

First, anyone who wants to work in America should have a job. We need more balanced macroeconomic policies that balance the dual goals of "full employment" and "price stability." That is, the Federal Reserve's goal should be to maximize growth and employment consistent with reasonable price stability. The Humphrey-Hawkins Act mandates the Federal Reserve to serve these dual objectives, but only Congress can hold the Fed accountable for serving both.

We also need more coordination between the fiscal policy of the Treasury Department and the monetary policy of the Federal Reserve. In recent years, Treasury has been absent from its responsibility to help smooth the business cycle and support rapid growth and full employment. One school of thought at Treasury is to cut taxes and hope for the best. Another school of thought has been to balance the federal budget and hope for the best. Neither school well serves the country's need for rapid growth and full employment. Moreover, both schools have supported "strong dollar" policies that have contributed to misaligned exchange rates, particularly with China and other Asian trading partners, and left American producers at a distinct competitive disadvantage in global markets.

Second, American workers should enjoy the fundamental freedom to associate with their fellow workers and, if they wish, organize unions at their workplace and bargain with their employer for dignity at work and a fair share in the value they help create.

The best opportunity for working men and women to get ahead economically is to unite with their co-workers to bargain with their employers for better wages and benefits. Workers who belong to unions earn 30 percent more than non-union workers. They are 62 percent more likely to have employer-provided health care coverage, and four times more likely to have pensions.

More than half of all American workers – nearly 60 million – say they would join a union right now if they could.

But the current system for forming unions and bargaining is broken. Every day, corporations deny employees the freedom to decide for themselves whether to form unions. They routinely intimidate, harass, coerce, and even fire people who try to organize unions. Workers are fired in a quarter of private-sector union organizing campaigns; 78 percent of private employers require supervisors to deliver anti-union messages to the workers whose jobs and pay they control; and even after workers successfully form a union, they cannot get a contract one-third of the time. This is an urgent crisis for workers, blocking their free will and their ability to get ahead economically.

The system has to be changed to give all working people the freedom to make their own choice about whether to have a union and bargain for better wages and benefits. If the law is changed to allow more workers to make their own decision—without management coercion—more of America's workers will be able to ensure fair treatment on the job and improve their standard of living.

Yesterday, 230 members of Congress introduced the Employee Free Choice Act to allow workers the freedom to organize free of employer interference and the fear of job loss. The Employee Free Choice Act would strengthen penalties for companies that coerce or intimidate employees; establish mediation and binding arbitration when the employer and workers cannot agree on a first contract; and allow employees to form unions when a majority express their decision to join the union by signing forms designating the union as their representative in bargaining with management.

We urge Congress to take immediate action to enact the Employee Free Choice Act into law. This legislation would represent an enormous step toward restoring balance between workers and their employers and helping repair the ruptured productivity-wage relationship.

In 1935, Congress declared it to be the "policy of the United States" to "encourage the practice and procedure of collective bargaining." In large measure, Congress's adoption of this policy, which remains embodied in federal law, was based on a finding that the "inequality of bargaining power between employees who do not possess full freedom of association or actual liberty of contract, and employers who are organized in the corporate or other forms of ownership associations . . . tends to . . . depress wage rates and the purchasing power of wage earners in industry." 29 U.S.C. § 151. It is thus not surprising that the defects in federal labor policy which have been exploited by employers in order to frustrate employees' freedom to choose whether to bargain with their employers have led to precisely the depressed wages and growing inequality that Congress aimed to prevent.

The declining percentage of the workforce represented by unions has contributed to growing income inequality, declining medical insurance coverage, and declining pension coverage. There are large gaps between unionized and non-unionized workers in many other important areas, including education and training, disability benefits, and life insurance coverage. Moreover, all workers, union and nonunion, benefit from a higher percentage of the workforce being unionized, as evidenced by the fact that workers in the ten states with the highest union density earn almost $2 an hour more than those in the ten states with the lowest percentage. The World Bank has confirmed these findings in an international comparison.

In many of the expanding occupations in our service economy, union representation is the difference between poverty and living wages. The average non-unionized cashier, child care worker, food preparation and serving worker, dishwasher, maid and housekeeper earns less than the federal poverty level for a family of four, while their unionized counterpart earns a living wage. And these are precisely the occupations in which workers are actively seeking to join unions. As a result, in the ten states with the highest percentage of union representation, the percentage of the population living in poverty is more than 2 percent lower than in the ten states with the lowest percentage.

Union representation is also the best antidote to the poison of discrimination. Because the premium earned by union workers is larger among minorities and women, union representation reduces wage inequality. For example, the Bureau of Labor Statistics found that in 2004, Latino workers who were union members earned 59 percent more than their nonunion counterparts, while unionized women workers earned 34 percent more than their nonunion counterparts.

Dr. Martin Luther King, Jr. recognized the important role of unions: “The labor movement was the principal force that transformed misery and despair into hope and progress.” This was true as the industrial age gave way to the prosperity of the 1950s and 1960s and can be so again provided Congress restores the promise of American labor law.

Third, we need new policies to assure a competitive American economy and decent jobs at home and abroad in a rapidly globalizing world.

We have lost 3.4 million good manufacturing jobs since 1998, partially as a result of misguided exchange rate policies, unbalanced trade policies, and corporate strategies to aggressively off-shore manufacturing operations. Moreover, Princeton economist Alan Blinder warns that as many as 42 million service sector jobs are also vulnerable to off-shoring, many of them held by highly-educated and highly-paid American workers.

We need a fundamental overhaul of our failed policies, which have led to skyrocketing trade deficits and a cumulative $3 trillion in debt.

Internationally, this requires more balanced trade policies that protect the rights of workers as well as they protect intellectual property. Only with effective and enforceable protections of core worker rights integrated into national and international trade and financial rules will the benefits of globalization be equitably shared with workers. We need to enforce our trade laws and our trade agreements much more effectively, and we need to make sure our negotiators don’t agree to weaken our trade laws in order to cut more deals.

Domestically, it requires a national economic strategy to rebuild our manufacturing capacity. This is important not just because of the need for more good manufacturing jobs, but crucial if we are to reduce our trade deficit and dependence on foreign borrowing.

China’s Illegal Currency Manipulation and Workers’ Rights Violations

The Bush administration has simply refused to hold the Chinese government to its international obligations on trade, currency manipulation and human rights, and has denied American businesses import relief they are entitled to under the law.

The AFL-CIO has filed two Section 301 petitions alleging that China’s systematic and widespread repression of workers’ human rights is an unfair trade practice under U.S.

law, costing hundreds of thousands of U.S. jobs and millions of dollars in lost business. Representatives Benjamin Cardin (now Senator Cardin) and Christopher Smith joined us in filing the second petition last year.

In 2004, we also joined with a broad domestic business coalition in filing a Section 301 case outlining how China's currency manipulation constitutes a violation of China's obligations under World Trade Organization and International Monetary Fund rules, and how it harms American workers and producers. A bipartisan Congressional coalition then refiled the same petition.

All of these efforts were cursorily denied by the Administration, which has declined even to investigate the underlying economic arguments.

We call on the Bush Administration to move beyond "bilateral consultation" and continued dialogue to address the urgent problems in the U.S.-China trade and economic relationship. Certainly, the Administration needs to initiate WTO dispute resolution immediately in several areas to ensure that China meets its obligations in a timely and effective way – including illegal subsidies, currency manipulation and violation of workers' rights. The Administration should clarify without delay that countervailing duty remedies can be applied to non-market economies.

But Congress cannot wait for this Administration to act.

Last week, Representatives Tim Ryan and Duncan Hunter introduced H.R. 782, the Fair Currency Act of 2007. This bill is an updated version of H.R. 1498, the China Currency Act of 2005 that was introduced in the 109th Congress and had 178 bipartisan cosponsors.

This bill clarifies the definition of currency manipulation, identifies currency manipulation as an illegal subsidy, and ensures that countervailing duty laws can be applied to non-market economies. It does not apply exclusively to China, but is broadly applicable. It is a crucial first step in addressing the urgent economic problems we face today. We urge Congress to give immediate consideration to the Fair Currency Act.

A New Direction on Trade

Last week President Bush called for the extension of trade promotion authority, or "fast track." This was further evidence the president simply is not listening to the real and serious concerns of the American people regarding our nation's economic future. Extending "fast track" authority would hamstring Congress's ability to fix our broken trade policy at a time when working families are in dire need of a correction in course.

The 2006 mid-term election swept several dozen free-trade incumbents out of office, replacing the vast majority with candidates who campaigned pledging to oppose unfair trade agreements and tax policies that ship good American jobs offshore. Across the country, from Ohio to Iowa, from Florida to California, voters resoundingly rejected the President's failed trade agenda and demanded a change in course.

Rather than admitting that current policies are not delivering the desired outcomes, the free-trade elite continues to insist that more free trade deals are needed to lift the Third World out of poverty and boost American competitiveness. It all sounds very appealing. The only problem is it does not work.

We call on our elected officials to pause, review, and reform current trade, tax, and currency policies – rather than barrel along on the current path.

We need to conduct a strategic review of the agreements we have already put in place. Such a review would re-examine the content and performance of current agreements to see where their strengths and weaknesses are and how we can do better in the future. Tracing the actual trade and investment patterns that result from new trade deals, as well as their impacts on living standards, social regulation and communities, would allow us to have a much more nuanced debate about the actual outcomes of trade deals – rather than their promised benefits.

Absent an honest assessment, we will undoubtedly find ourselves on the same failed path.

International trade is important and should be pursued, but it is essential that we get the rules right. Any future trade negotiating authority must *require* that the negotiators actually achieve the key negotiating objectives, not just "give it their best shot."

Any agreement that is granted expedited consideration and an up-or-down vote must include enforceable core international worker rights and environmental standards, subject to the same dispute and enforcement provisions as the commercial concerns in the agreement. It must also include rules on investment, government procurement, intellectual property rights, and services that strike the right balance between democratic accountability, development concerns and international obligations.

Last November, working people voted for a new direction. They voted for a new process to ensure that Congress and the public have a greater say in our economic future. No longer should Congress be expected to take an up-or-down vote on a bad trade deal without proper consultation and participation at earlier stages of negotiation. Congress should be consulted throughout the process and should certify whether a proposed agreement fulfills the mandatory negotiating objectives. If not, Congress should send the President back to the bargaining table until the agreement is one that the American people can support - one that will ensure that the benefits of trade are more equally distributed rather than concentrated in too few hands.

Finally, people who work every day (a) should not live in poverty, (b) should have access to quality health care for themselves and their families and (c) should be able to stop working at some point in their lives and enjoy a dignified and secure retirement.

The increase in the minimum wage to $7.25 an hour recently approved by both the House and the Senate is desperately needed and long overdue. But this increase will still leave a family of three in poverty and dependent on public assistance. To allow low-wage workers to participate equitably in our country's productivity growth, we need to restore the minimum wage to its traditional level of one-half the average wage for non-supervisory workers in the private sector. Today that would be over $8.00 per hour.

We must also reform our failing health care system to provide affordable, quality care for every American. There are a variety of approaches to health care reform that would cover the uninsured, without increasing our national health care expenditures. Many of these approaches would also provide better means for improving quality and restraining health care cost increases. They would also help reduce the burden on employers and improve their competitive position in global markets.

Reforming our health care system and restraining cost increases would also contribute greatly to our ability to provide a secure retirement for American workers. There are an increasing number of voices in Washington calling for "entitlement spending" reform to address long-term costs of Medicare and Medicaid. Reforming our health care system should relax some of the pressure to cut retirement benefits and allow space for bolstering Social Security and our fragile pension system.

We face especially daunting challenges in securing adequate lifetime retirement income for all American workers. We believe retirement security should be based on mutual responsibility, with financing and risk allocated equitably among government, employers and workers. Social Security is the cornerstone of our nation's retirement security. It must be preserved and strengthened for current and future beneficiaries. In addition, we must assure that retired workers receive a guaranteed retirement income that supplements Social Security, one their employers are required to fund. Retirement savings vehicles, like 401(k) plans, cannot replace guaranteed pension income. However, they should be structured to be more effective and efficient and serve the interest of workers, not those of their employers or Wall Street. Finally, corporate abuse of the bankruptcy process, allowing employers to abandon pension and other retirement obligations, must be brought to a halt.

The American economy can work for all Americans, but achieving this will require a change of course for our country's economic policies. I do not pretend to have all the answers to the many economic challenges facing the American middle class. But I believe workable policies to these challenges can emerge from a national dialogue that involves business, labor, and the public at large. I commend the Committee for beginning this dialogue.

Thank you again for the opportunity to be with you today and share the views of the American labor movement on the economic challenges facing American workers.

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