

EPI POLICY HANDBOOK

# A PLAN TO REVIVE THE AMERICAN ECONOMY

VERSION 2.0



AGENDA FOR  
**SHARED  
PROSPERITY**



# A PLAN TO REVIVE THE AMERICAN ECONOMY

VERSION 2.0

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# I N T R O D U C T I O N

At this pivotal and historic time, Americans are looking for a new direction in economic policy. Beset by job losses, wage stagnation and escalating costs, they are ready for fundamental change to restore security and opportunity for their families – to realize the promise of the American Dream.

With this plan, the Economic Policy Institute answers that call with a series of innovative solutions to the most pressing economic problems of the day – from a realistic universal health care program to competitiveness policies that will return the United States to the position of global leadership it enjoyed for much of the last century. The Agenda for Shared Prosperity is designed to usher in a new era of economic growth in which all Americans share in the gains.

## A GENERATION OF MISTAKEN POLICIES

From post-World War II to the early 1970s, the U.S. economy grew at a solid pace. Real incomes rose steadily, and tens of millions of families worked their way into the world's first mass middle class. The benefits of the prospering economy were broadly shared, raising living standards and providing a new sense of comfort and security – although many members of racial and ethnic minorities struggled at the margins.

This link between economic growth and improved standards of living for most Americans was an essential element of the social compact between workers and corporations that defined America in the middle of the 20th century. But it began to fray in the early 1970s, hit by an Arab oil embargo and the beginnings of a global economic realignment. Economic expansion slowed and trade surpluses turned into trade deficits. Americans were struggling with inflation and rising unemployment, making “stagflation” a household word.

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At the same time, a new economic conservatism began to gain currency, touting the unregulated market as inherently wise and efficient and far superior to an intervening government. The message was picked up and amplified by a well-financed network of conservative think tanks. Public policies increasingly bowed to corporate interests and global capital. Long-protected industries such as trucking and the airlines were deregulated, and employers grew emboldened in anti-union campaigns.

With the advent of the 1980s came tax policies that sheltered the wealthiest while offering little or no relief to working Americans. Then, the 1990s brought a new kind of global sourcing and trade that marked the beginning of a long and steep decline for U.S. manufacturing – once the engine of the nation’s economic growth and a source of family-supporting jobs. Trade deals that protected corporate interests but failed to do the same for workers accelerated that shift.

Now America imports about \$700 billion more in goods and services than it sells to the rest of the world. To pay for it, the nation borrows or sells off U.S. assets to the tune of almost \$2 billion a day.

These changes were not inevitable. They were largely the result of mistaken policies and choices, nudged along by the influence of wealthy individuals and corporations. And they have done real harm to working Americans, who have benefited little from the steady economic growth of the past three decades.

Instead, an ever-larger share of that growth has gone to the wealthiest segment of the population.

Since 1973, income for the top one-tenth of 1 percent of families has grown by more than 350 percent. The top 1 percent of families now takes 23 percent of the nation’s income, the highest share since just before the Great Depression.

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Today, top corporate executives earn 275 times as much as the average worker, compared with only 27 times in 1973.

Meanwhile, working families are struggling. Typical family incomes never fully recovered from the 2001 recession, and now another recession has begun, set off by a devastating crash in the housing market. Unemployment is on the rise, with employers cutting nearly a million jobs since January 2008.

Nine million more families have lost their health coverage since 2000, and the cost of providing health insurance increasingly burdens America's responsible corporations as they compete in the global marketplace. Basic family expenses – food, gasoline, heating and health coverage – are outpacing typical family incomes. So are the costs of upward mobility – tuition at public colleges rose by almost 40 percent in inflation-adjusted dollars between 2000 and 2005.

The nation's progress toward eradicating economic inequalities by race and ethnicity – evidenced by real gains during the robust job market of the late 1990s – has stalled. In June 2008, unemployment among African Americans reached 9.7 percent, compared with 6.9 percent for Hispanics and 4.4 percent for non-Hispanic whites. The poverty rate among African Americans grew from 22.5 percent in 2000 to 24.3 percent in 2006, the most recent year available.

For most working families, economic insecurity continues to grow amid layoffs, downsizings and off-shoring. Health and pension benefits are shrinking for those lucky enough to have jobs. Many people are coping with record levels of debt, leading to a spike in bankruptcies and foreclosures. In these and other ways, the economy's "destructive churn" increasingly is chewing up American workers.

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## AN AGENDA FOR FUNDAMENTAL CHANGE

The Agenda for Shared Prosperity points the way to economic growth, reducing insecurity and restoring the defining dream of our society – broadly shared prosperity with opportunities for upward mobility. Developed in collaboration with some of the top progressive thinkers in America, it seeks to get Americans' incomes growing again, reduce financial risk by ensuring health and retirement security, and maintain sustainable economic growth through innovation and the generation of good jobs.

Launched at the end of 2006, the Agenda for Shared Prosperity is already transforming national debates. Thanks in part to EPI's research and proposals, comprehensive health coverage, fair trade, and targeted investment for innovation and economic growth are all on the political radar. Opinion leaders increasingly are affirming the American value of "we're in this together," rather than taking the shortsighted view that "you're on your own" – a moral and economic contrast popularized by EPI's Jared Bernstein.

Underlying the research and proposals of the Agenda for Shared Prosperity is a simple logic: When people work hard, they should share in the bounty they create. If everyone shares in our nation's prosperity, we will produce more, boost wages and generate economic growth. Investing in the skills and security of our fellow citizens is not only our social responsibility, but also sound economic policy.

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## BLUEPRINT FOR A BALANCED ECONOMY

Economic growth that is not shared is ultimately unsustainable. The Agenda for Shared Prosperity offers a blueprint for lasting growth to which every American can contribute and in which every American can share. In a series of Agenda papers presented during 2007 and continuing in 2008 and beyond, EPI is offering practical proposals for investing in our commonwealth and common future. The policy recommendations presented in this handbook, taken together, would build a shared prosperity by achieving these goals:

### **Increase economic security and revive the middle class, making the components of the American Dream affordable**

First, we address the greatest burden on American businesses, American families and every level of government – the health care crisis. By building on the current employer-based health care system and creating a large national insurance pool based on the Medicare model, we are able to provide health insurance to every American while saving the economy billions of dollars over time. Likewise, it is possible to protect Social Security benefits without cuts, and create new Guaranteed Retirement Accounts that augment the government benefits and private pensions. New legislation can make the financial system serve the real economy, protect consumers and prevent abuses by credit card and mortgage companies.

### **Reward work and reconnect pay to productivity**

As a nation, we should adopt a full-employment goal, rejecting high and rising unemployment rates, stagnating wages, and a labor market that doesn't well serve typical workers. We should revitalize job training, and better enforce workplace protections, such as overtime premiums and child labor prohibitions.

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The minimum wage should be raised and adjusted annually to keep up with increasing costs, and labor laws should be reformed to make it easier for workers to join unions, strengthening their bargaining power. Mediation and binding arbitration should be employed when necessary to achieve first contracts with newly organized unions.

### **Generate good jobs by promoting innovation and growth**

Federal investment and tax incentives can spur an entire spectrum of new “green jobs.” Likewise, we advocate public investment in America’s crumbling infrastructure to prepare a solid foundation for future growth while providing good jobs and improving the quality of life. We should also commit U.S. resources to a national broadband build-out that will enhance business, improve education and provide avenues of mobility for poor and underserved groups.

### **Remove the obstacles to opportunity**

The nation needs to continue its efforts to eradicate discrimination by race, gender, national origin and bias of every kind, and to ensure that opportunities for education, employment, entrepreneurship and home ownership are available to all. We can provide pathways out of poverty and into the promise of America, including for unauthorized immigrants, who should be moved toward legal status. Federal policy should facilitate work and family balance, establish pay equity as a goal, and include paid leave for family and medical emergencies. College should be accessible and affordable to anyone who wants to go.

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## **Reshape globalization to make America an international leader again**

By developing responsible trade policies and a competitiveness agenda for the 21st Century, the United States can restore its industrial base and revive its global economic strength. This will require eliminating perverse tax incentives that reward corporations for investing overseas, supporting effective research and technology development and re-emphasizing local industrial extension services. The United States should take the lead in building a more stable and equitable global financial system, and help set new rules for international trade, including enforceable prohibitions against exchange rate subsidies for exports.

The difficult economic conditions of today were decades in the making, and won't be resolved overnight. But there is hope in the growing recognition among Americans that we have been on the wrong track and need to change. The recommendations in this handbook are offered in the spirit of helping to set that new direction, to find a balance that encourages growth and the equitable distribution of its benefits – a path to shared prosperity.





# HEALTH CARE FOR ALL

*“We have the best opportunity in our history to reform our health care system so that it works for everyone. The crisis is grave, the demand is great, and a realistic plan is in hand. The time is right for Health Care for America.”*

— EPI PRESIDENT LAWRENCE MISHEL

# T H E P R O B L E M

Skyrocketing health care costs pose a major dilemma for the U.S. economy, strapping industry as well as families and individuals. The system that has evolved in the United States denies access to millions of Americans while pushing costs higher. Employers faced with these rising costs are cutting benefits, or passing along the costs to employees, who increasingly are forgoing health care coverage altogether.

There is a human cost as well: Some 45 million U.S. residents went without health insurance last year. Each year, 18,000 people die because they're uninsured, according to the Institute of Medicine. Medical bills, even for the insured, account for half of all bankruptcies, which are up 2,000 percent over the past 20 years. No other developed nation leaves such a large chunk of its population so exposed to the medical and financial risks of illness and injury.

Despite this poor coverage and the personal hardship it yields, the United States spends far more on health care per person than any other developed country – and a whopping 64 percent more of its GDP (Gross Domestic Product) than the average of the world's 20 richest nations.

Health costs are growing faster in the United States than in the rich-nation average, crowding out space for growth in wages, profits and public investments. Over time, these rising costs cause an increasing share of residents to fall through the cracks of the health system – except to use already-overstretched emergency rooms.

## POLITICAL LANDSCAPE

As the U.S. health care system has deteriorated, the chances for reform have improved significantly. In fact, the opportunity may have never been better for a substantial revision of a system that Americans increasingly see as failing. A solid majority, 59 percent, support covering every American by requiring “individuals, employers, the government and insurance companies” to share in the responsibility, according to a February 2008 poll by NPR/Kaiser Family Foundation/Harvard School of Public Health. A March survey of more than 2,000 physicians by Indiana University found similar support – 59 percent – for health care reform that provides coverage for all.

Proposals advanced by the Bush administration and Congress run the gamut from tinkering around the system’s edges to reshaping it into something akin to single-payer models applied in Canada, Britain, France and other industrialized nations. These approaches include:

- **Tax code incentives** – The Bush administration and congressional Republicans have favored tax exclusions for individuals to encourage them to purchase cheaper, less-comprehensive health plans, at the expense of employer-provided plans. The expressed intent of this plan is to reduce the cost of health care by getting consumers to use it less. However, employers would be discouraged from providing coverage under this plan, and the tax exclusion would limit the pooling of risk that keeps insurance affordable for many who would not be able to afford it on their own.
- **Health care vouchers** – Legislation introduced by Rep. Paul Ryan (R-Wis.) would dismantle the employer-based system and offer vouchers to every American to purchase a basic health insurance package. Medicaid would

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be eliminated and Medicare would not be offered to the newly eligible. The plan, costing \$763 billion, would be paid for with a value-added tax.

- **Health care conversion** – Sen. Ron Wyden (D-Ore.) also would eliminate the employer-based health care system outright, requiring employers to convert the money they spend on health care into salary increases for their employees, who would be required to purchase insurance. Each state would set up an agency to offer a variety of private health plans. Wyden says the plan would save \$4.8 billion in the first year, and the savings would grow.
- **Single-payer** – Rep. John Conyers (D-Mich.) introduced a “Medicare for All” proposal, and Sen. Edward M. Kennedy (D-Mass.) and Rep. John Dingell (D-Mich.) introduced similar legislation, to make the federal government fully responsible for universal health care. Another plan, AmeriCare, offered by Rep. Pete Stark (D-Calif.), also promised universal coverage by building on the successful Medicare program. These programs all predict administrative efficiency savings from the publicly run program.

Newly elected President Barack Obama has offered a health care proposal that relies heavily on a large national insurance pool that competes with private insurance plans, and a requirement that all employers participate. While Obama would not require all Americans to participate, his plan otherwise resembles a plan authored by Yale Political Science Prof. Jacob S. Hacker for the Economic Policy Institute, Health Care for America, which uses the purchasing power of a large national pool to rein in costs, providing care for everyone while still saving money through administrative efficiencies.

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## EPI SOLUTION: SHARED RESPONSIBILITY

Health Care for America, developed as part of EPI's Agenda for Shared Prosperity, calls for employers, individuals and the federal government to share responsibility for the health coverage of all U.S. residents, with generous benefits that include mental health care and prescription drugs.

The plan's centerpiece is a federally administered insurance pool similar to Medicare, funded by user premiums and co-pays, employer contributions and government subsidies. Administrative costs are much lower in Medicare than in private insurance.

Employers would choose to either offer their workers a private insurance plan with costs and benefits comparable to or better than Health Care for America, or make a payroll-based contribution to support the public plan. The Lewin Group, a respected health industry consultant, estimates that two-thirds of workers who currently get private plans through their employers would continue to do so.

The new insurance pool would be funded by user premiums (ranging from \$70 per month for an individual to \$200 per month for a two-parent family), contributions from employers amounting to 6 percent of payroll, and subsidies from the federal government. Annual out-of-pocket expenses would be capped at a maximum of \$3,500 for an individual and \$5,000 for a family, but would also be capped as a share of income, making out-of-pocket maximums generally lower than these amounts.

The federal government would subsidize premiums and co-pays for low-income earners on a sliding scale. Workers with family incomes below 200 percent

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of the federal poverty line would pay no premiums at all. Subsidies would be handled through the tax code.

Every U.S. resident and employer would be required to participate. The current Medicaid program and the SCHIP program, which covers uninsured children through the states, would also be blended into the larger plan, leaving no one worse off.

Like Medicare, Health Care for America would offer a choice between a basic fee-for-service plan and one of several private HMOs. Users would be enrolled automatically – at their place of work, through public programs, or when they seek care – with a guarantee of coverage from birth until they go on Medicare. No one would be forced to pay more for pre-existing conditions and no one could be excluded from coverage.

The Lewin Group analysis found that Health Care for America could provide universal coverage while lowering national health spending by about \$100 billion in its first year of implementation. Those savings would grow over time.

The greatest gains would be realized by the uninsured, and by employers who currently provide insurance, particularly at small firms. Lewin estimates these employers would save \$5 billion annually.

The federal government would spend an additional \$49 billion on health care, with savings accruing mainly to households (about \$23 billion a year) and state and local governments (\$21 billion), largely through a reduction in emergency and safety net services, including Medicaid and SCHIP.

## POLICY RECOMMENDATIONS

By mobilizing strength in numbers to bargain for better health care and lower costs, with responsibility shared by employers, individuals and the government, this plan is a fundamental change from current policies, which essentially tell Americans that they're on their own. However, because it takes the best of the current system and can reduce overall health care costs, as the Lewin report reveals, it is more palatable politically than "single-payer" systems like the Canadian, British and French models.

### **Pass Health Care for America, including:**

**National Insurance Pool** – The federal government would invest \$49 billion a year to create a large public health insurance pool modeled on Medicare that would compete with private plans. Medicaid and the State Child Health Insurance Program would be folded into this national plan.

**Guaranteed Care and Generous Benefits** – The national program would cap out-of-pocket spending and offer generous benefits that include services covered under Medicare, as well as mental, maternal and child health services, and a prescription drug plan that negotiates for lower prices.

**Play or Pay** – All employers would be required to pay 6 percent of their payroll into the public pool to cover their employees, or offer health care at least as good as that offered by the public pool.

"By building on the best elements of Medicare and employment-based health insurance, Health Care for America can provide every American good affordable, guaranteed coverage for no more than we're spending for health care today – and with the promise of big savings and quality improvements down the road."

– Jacob S. Hacker, Yale University  
Professor of Political Science

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**Affordable Coverage for All** – Every U.S. resident would be required to participate in the health care plan, which would provide generous subsidies to ensure that health care is affordable for everyone. Individuals and families would not be charged for premiums if they work and have household income below 200 percent of the poverty level (roughly \$33,200 for a three-person household). Partial subsidies would continue up to 300 percent of the poverty level.

## **RESOURCES**

“Health Care for America,” by Jacob S. Hacker, EPI Briefing Paper #180, Economic Policy Institute

“Cost Impact Analysis for the Health Care for America Proposal,” prepared by the Lewin Group Inc. for the Economic Policy Institute



# RETIREMENT SECURITY

“Tax breaks for retirement plans are at an all-time high, while pension coverage has not budged in 30 years. Most Americans have less retirement income security than they did a generation ago.”

– TERESA GHILARDUCCI,  
ECONOMIC POLICY ANALYSIS CHAIR,  
NEW SCHOOL FOR SOCIAL RESEARCH

# T H E P R O B L E M

The U.S. retirement system has been likened to a three-legged stool, with each leg representing the three sources of retirement income – Social Security, employer-sponsored pension plans and individual savings. When the concept was introduced in 1949 by an insurance industry executive, it was understood that each leg of this stool was essential if Americans were to have adequate income in retirement.

Today, that stool is wobbly indeed. While Social Security continues to be the bedrock of retirement income support, and is on sound footing for years to come, private pensions are increasingly being undermined by misguided regulatory and tax policies, and individual savings are especially anemic, as low- and moderate-income families have seen incomes stagnate and lack the discretionary income to build up savings.

Over the past 20 years, spurred by federal regulations and tax subsidies, employers increasingly have replaced their defined-benefit pension plans, which pay regular annuities for life based on salary and time in service, with less secure defined-contribution 401(k) and IRA plans, shifting the onus for contributions, and risk, to the employee. Defined-contribution plans are not pensions at all, but rather savings plans with hidden management fees that are subject to the uncertainties of the market.

The cost of tax breaks for 401(k) plans and IRAs amounted to \$135 billion in 2007, most of which went to households in the top tax brackets. As a result, 401(k) plans and other defined-contribution plans that were designed to supplement, not replace, traditional pensions are growing at the expense of defined-benefit plans that provide a more secure, lifetime benefit. Still, only half of all full-time workers (and few part-time workers) have any workplace retirement plan at all, and fewer than 20 percent have defined-benefit plans.

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Although Social Security was projected in 1983 to be fully funded until 2057, changing assumptions about disability rates and real wage growth have led actuaries to project that, under current law, Social Security's income over the program's 75-year valuation period will fall short of expenditures by 1.7 percent of taxable payroll, a very manageable deficit. That projected deficit is less than one-third the cost of President Bush's proposal to make his tax cuts permanent, or about the same cost as extending the tax cuts for the wealthiest 1 percent of the population.

If current trends continue, the early baby boomers will be the last generation with more retirement security than their parents. Americans are beset by soaring health and long-term care costs, and their Social Security benefits have been threatened by privatization proposals. Public policy has shifted away from secure defined-benefit pensions and toward 401(k) plans, with 70 percent of tax subsidies for defined-contribution plans and IRAs going to those in the top 20 percent of the income distribution, and almost half going to the top 10 percent.

Although fund managers project 8 percent to 10 percent annual earnings on 401(k) and IRA investments based on historical trends, investment returns can be highly precarious over the long term. From 1966 through 1982, the Dow Jones Industrial Average performance was essentially flat, and many analysts predict that the stock market is entering a period that may resemble the bearish 1970s. If so, many may not be able to retire. The recent loss of more than \$2 trillion in 401(k) assets highlights the unacceptably dangerous volatility of the 401(k) as a tool for retirement security.

In fact, the broad majority of Americans are facing increasing retirement insecurity. Thirty-six percent of workers 55 and older have less than \$25,000 in savings. Many older Americans are working longer or taking part-time jobs,

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with nearly one in four people between the ages of 65 and 74 (23.2 percent) participating in the labor force in 2006, up from 19.6 percent in 2000, a trend that is expected to continue.

Certain groups are especially vulnerable under the current retirement system, including part-time workers, divorced and widowed women, individuals with long-term care needs and medical expenses, and racial and ethnic minorities. More than 60 percent of unmarried women and more than 56 percent of African Americans and Hispanics approaching retirement age have expected retirement incomes below twice the poverty line.

## POLITICAL LANDSCAPE

No serious effort to reform the U.S. pension system has been undertaken in recent years, although the Bush administration sought to convert dedicated Social Security money to individual accounts, a plan that was challenged because it would undermine Social Security. Barack Obama has proposed changes to bolster Social Security funding, including raising the cap on taxable income.

Until the fall 2008 Wall Street meltdown dramatically illustrated the dangerous exposure of 401(k) and IRA savings in equity mutual funds, Congress had virtually ignored the retirement savings crisis. At an Oct. 7 hearing of the House Education and Labor Committee, Chairman George Miller called for changes in 401(k) policies. That debate is likely to resume in 2009.

Public opinion supports federal action to ensure retirement security. Surveys show that workers want pensions, are willing to pay for them, and appreciate a modest, steady and secure annuity. At the same time, this research shows that most Americans think workers should not bear most of the cost of funding retirement, and instead believe that employers, the government or all three groups should bear the responsibility.

## EPI SOLUTION: GUARANTEED RETIREMENT ACCOUNTS

EPI has put forward a rescue plan for the American retirement security system, based on a mix of Social Security, employer defined-benefit pension plans, and a new type of personal retirement savings account called a Guaranteed Retirement Account (GRA).

The rescue plan, authored by economist Teresa Ghilarducci of the New School for Social Research, depends first of all on bolstering the defined-benefit system and securing Social Security. It would eliminate the regulatory and tax law favoritism that only gives 401(k)-type plans wide discretion and little scrutiny. Employers considering converting their defined-benefit plans to 401(k) plans to save money would find that option much less attractive without the tax benefits.

“Prior to Social Security, those unable to work routinely moved in with their children. Those who had no children or whose children were unable or unwilling to support them typically wound up in the poorhouse. Fear of the poorhouse was always lurking in the background, haunting people as they aged.”

– Nancy J. Altman,  
Chairman of the Board of Directors of  
the Pension Rights Center

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Instead, the tax breaks for 401(k)-style plans and IRAs would be converted into flat tax credits to offset the costs of the new GRAs, with employers and workers each required to contribute 2.5 percent of earnings, deducted along with payroll taxes and administered by the Social Security Administration. Eligibility for the \$600 refundable tax credit would be extended to part-time workers, caregivers of children under age six, and those collecting unemployment benefits. The plan would improve the retirement security of most Americans without costing taxpayers more than the current system.

All workers not enrolled in an equivalent or better defined-benefit pension would be enrolled in a GRA, which borrows the best features of defined-benefit and defined-contribution plans, including guaranteed retirement benefits that last a lifetime, low administrative costs and steady contributions. Workers would accumulate savings in investment funds that earn a real rate of return (3 percent) guaranteed by the federal government, and these funds would be converted to life annuities upon retirement. Along with Social Security benefits, these would replace approximately 70 percent of pre-retirement earnings for the typical retiree.

Savings pooled in a pension fund and professionally managed in a diversified portfolio can earn solid returns while spreading risk, including the risk of retiring during a market downturn. The GRAs would be fully portable and could be accessed only to fund retirement or disability – unlike 401(k) funds, which can be tapped for health care, home buying or education. The system, like Social Security, is very progressive, since most low-income workers, even if they die younger, would receive more in benefits than they contributed directly and indirectly through taxes.

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Social Security itself can be brought into close actuarial balance over the next 75 years with moderate reforms, including raising the Social Security earnings cap (currently \$102,000) to cover 90 percent of all covered earnings. Though Congress indexed the cap in 1977 in an effort to keep 90 percent of wages in covered employment within the taxable wage base, the share has shrunk to around 83 percent because earnings for the highest-income workers have risen much more rapidly than the average.

## POLICY RECOMMENDATIONS

### **Congress should pass a retirement security rescue plan that:**

- Creates new Guaranteed Retirement Accounts, administered by the Social Security Administration, to supplement employer-provided defined-benefit pension plans and Social Security, with the cost of contributions split equally between employers and employees. All workers not enrolled in an equivalent or better defined-benefit plan would be required to participate, with contributions equal to 5 percent of earnings – split equally by employers and employees – deducted along with payroll taxes. Workers' accounts would earn a guaranteed 3 percent per year return on investment after adjusting for inflation, and accounts would be converted to lifetime annuities upon retirement.
- Replaces tax breaks for 401(k)-style plans and IRAs with \$600 refundable flat tax credits, indexed to wage inflation. The \$600 is a minimum annual deposit for all participants. Account balances are converted to inflation-indexed annuities upon retirement.
- Retains tax exemption for contributions to fund defined-benefit pensions.

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## **In addition, Congress should strengthen the long-term solvency of Social Security by:**

- Gradually raising the earnings cap to keep 90 percent of wages in covered employment within the taxable wage base, as Congress intended.
- Converting the federal estate tax, with exclusions and rates set at the 2009 level, to a dedicated Social Security tax.

## **RESOURCES**

“Guaranteed Retirement Accounts: Toward retirement income security,” by Teresa Ghilarducci, EPI Briefing Paper #204

“Protecting Social Security’s Beneficiaries: Achieving Balance Without Benefit Cuts,” by Nancy J. Altman, EPI Briefing Paper #206



# EMPOWERING WORKERS

“Legal obstacles tilt the playing field so steeply against Freedom of Association that the United States is in violation of international human rights standards for workers.”

— KENNETH ROTH, EXECUTIVE DIRECTOR, HUMAN RIGHTS WATCH

# T H E P R O B L E M

U.S. worker productivity is up over 20 percent since January 2000. But real earnings for American families have stagnated, and health care and pension benefits are threatened. Economic growth, forged by the labor of American workers, has mostly benefited the very rich, adding to the nation's increasing economic inequality.

It's no coincidence that this stagnation of real earnings in the United States has occurred at the same time as the decline of unions. Unions not only "brought you the weekend," as the bumper sticker proclaims, but they've also provided the basis for a broad middle class in America, ensuring good wages and benefits to families that had never known such economic security. As unions have declined, wages have lagged, inequality has grown, workers at the bottom of the pay ladder have suffered, and an important part of the democratic fabric of society has unraveled.

Since 1953, when unions represented 33 percent of the U.S. workforce, union membership has plunged steadily, to 12 percent in 2006, and only 7.4 percent in the private sector. In 2007, union membership increased by 311,000, to 12.1 percent (133,000 in the private sector, to 7.5 percent), the largest increase in union membership since the late 1970s. While unions pointed to their recommitment to organizing new members, the hurdles to reviving the labor movement remain high.

In fact, there has been a steady deterioration of labor's ability to organize new members since 1947, when Congress passed the Taft-Hartley Act over President Truman's veto, diminishing the bargaining power bestowed on workers by the National Labor Relations Act. The NLRB and the courts eliminated the employer's duty to bargain with a union without an election, and Taft-Hartley gave employers the right to contest those elections, essentially setting the stage for the modern anti-union campaign.

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While a number of economic forces, including globalization, have contributed to the decline of unions, there is little question that an increasingly hostile legal landscape and aggressive anti-union employers have played a major role. The rules of NLRB elections, which allow employers to hold unlimited mandatory meetings with employees, to threaten that the company may shut down and to bar union organizers from the premises, effectively give employers veto power over the employees' decision.

## THE POLITICAL LANDSCAPE

When the Reagan administration cracked the whip over the Professional Air Traffic Controllers Organization (PATCO) strike in the 1980s, it legitimized and energized an anti-union managerial culture that continues to define labor relations into the 21st century. An entire cottage industry of union-busting consultants has sprung up to take advantage of this climate, offering a "cookbook" of employer activities to effectively foil workers' desire for union representation.

Bush administration appointees to the NLRB over the past eight years have consistently supported employers, to the detriment of worker rights and the effectiveness of unions. For example, the NLRB decisions in the "Kentucky River" cases permit employers to arbitrarily and falsely classify jobs as "supervisory," denying workers the right to union membership.

The cozy relationship the NLRB has maintained with anti-union employers was underscored in May 2008, when NLRB Chairman Robert J. Battista asked President Bush to withdraw his nomination for another term so he can join the union-busting law firm Littler Mendelson. Sen. Edward M. Kennedy (D-Mass.) said of Battista, "he led the most anti-worker, anti-labor, anti-union board in its history."

In the face of this uneven playing field, some unions have forged new cooperative agreements with employers, including simple “card checks” to determine union representation. But these have been the exception, rather than the rule, and unions have turned to Congress for relief, seeking passage of the Employee Free Choice Act (EFCA).

“The fact is that income inequality is real; it’s been rising for more than 25 years.”

– President George W. Bush

EFCA passed the House last year, 241-185, with 99 percent of the Democrats in favor and 94 percent of the Republicans opposed. The Senate version has 46 co-sponsors, all Democrats.

With the Senate in gridlock, action on the Employee Free Choice Act was blocked. But in 2009, with broad support in the newly elected Congress and from the president, EFCA should be one of the first pieces of legislation debated and enacted. Unions already have strong public sentiment in their favor. The proportion of workers who want unions has risen substantially over the past decade, and a majority of nonunion workers would vote for union representation if they could, according to recent surveys.

## **EPI SOLUTION: RESTORE WORKER BARGAINING POWER**

The union advantage for workers is clear. Union members earn 14 percent more than non-members and are far likelier to have a pension plan and health insurance. The union wage premium for minorities is even higher – 18 percent for African Americans and 22 percent for Hispanics.

Union advantages also flow to nonunion workers, particularly in highly unionized industries, since employers often match what unions win to avoid unionization. These gains represent a major boost for consumer demand throughout the economy. The corollary is that, as organized labor declines, so does this payout. Research has found that much of the decline in the average wage paid to workers with a high school education or less can be accounted for by the decline in union density.

Those who argue that wages should be held down to facilitate U.S. competitiveness in the global economy are missing the point. Competitiveness is linked to productivity, quality and innovation as well as labor costs. Studies have consistently shown a strong connection between unionization and productivity. Low unit costs are a more critical measure than low wages. Research shows that union workers, though paid more, often improve productivity enough to offset their higher wages.

Some companies have taken this high road to better business by working with their unionized workforces. Partially unionized Costco, for example, produced \$21,805 in operating profit per hourly employee in 2005, almost double the \$11,615 generated at Wal-Mart's Sam's Club, even though Costco's labor costs are 40 percent higher than Wal-Mart's. Other employers, such as Cingular (now AT&T Wireless), have agreed to card-check organizing and spoken appreciatively about the "competitive advantage" that their unions afford.

"Most people agree that we are the lowest-cost provider. Yet we pay the highest wages. So it must mean we get better productivity. Quoting Henry Ford, 'That's not just altruism, it's good business.'"

— Costco CEO James Sinegal

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Unfortunately, companies that have sought cooperative relationships with unions are few and far between. A majority of U.S. employers have taken advantage of labor laws heavily weighted in their favor to undercut unions, many using threats and intimidation. Kate Bronfenbrenner of Cornell found that workers were forced to attend meetings where they were subjected to anti-union presentations in 90 percent of organizing campaigns. In 80 percent of the campaigns, workers were forced to meet one-on-one to discuss unionization with their immediate supervisors. Many of those who did not comply were fired.

## POLICY RECOMMENDATIONS

In virtually every other advanced nation, a majority of workers can form a union by signing a card expressing their preference, just as the NLRA authorized when it was passed in 1935. Labor law reform that would restore this basic “card check” system is long overdue. We recommend:

### **Passage of the Employee Free Choice Act, which would:**

- Allow workers to present a petition of certification to the NLRB if the majority of employees in a workplace sign authorization cards. The Board would investigate the petition and could certify the union without an election. Employers would still have the option, as they do today, to simply recognize the union voluntarily.
- Provide monetary penalties and the possibility of injunctions to limit coercion, including a fine of triple the amount of back pay in case of discharge.

- Provide for mediation by the Federal Mediation and Conciliation Service if the parties cannot agree to a contract after 90 days, and binding arbitration if a contract is not reached after 30 days of mediation.

### **Legislation to ban the permanent replacement of strikers**

This practice by employers was little used until the 1980s, although it is based on the Supreme Court's 1938 decision in *NLRB v. Mackay Radio*. By allowing permanent replacements, the United States has taken away from workers their most effective economic leverage.

### **Legislation to narrow the definition of "supervisor"**

The NLRB's recent "Kentucky River" decisions discriminate against charge nurses and other experienced workers who direct or assign the work of others but are not part of the management team.

## **RESOURCES**

"Unions, the Economy, and Employee Free Choice," by Harley Shaiken, Economic Policy Institute briefing paper #181

"A New Social Contract: Restoring Dignity and Balance to the Economy," by Thomas Kochan and Beth Shulman, EPI Briefing Paper #184

"Do Workers Still Want Unions? More Than Ever," by Richard B. Freeman, EPI Briefing Paper #182





# INVESTING IN PUBLIC INFRASTRUCTURE

*“The infrastructure of our major American cities is just a few years away from total devastation and total crumbling . . . and we have deferred doing something about our infrastructure to the point that it is almost too challenging and too daunting.”*

— PENNSYLVANIA GOV. EDWARD RENDELL

# T H E P R O B L E M

From the nation's earliest years, federal infrastructure projects have helped fuel economic growth while improving the quality of life for all. In establishing a transcontinental railroad and Interstate Highway System, providing electricity to rural homes and businesses, and making the Mississippi River navigable, government involvement was essential.

But such investments are woefully inadequate today, and as a result, America's infrastructure is starting to crumble. Almost every year we see a new example – from the bridge collapse in Minneapolis to the breached levees in New Orleans and along the Mississippi River, to the power blackouts in New York City. These failures are just the tip of a dangerous iceberg.

The American Society of Civil Engineers estimates that it would take \$1.6 trillion over five years to bring the nation's infrastructure up to good condition. Consider just a few glaring examples of how deficient we are today:

- The concrete and steel superstructure on the Interstate Highway System is 35 to 40 years old, on average. Congestion cost \$78.2 billion in 2005 in wasted fuel and time, according to the Texas Transportation Institute, including the use of an extra 2.9 billion gallons of fuel.
- One in every eight bridges in the nation – 73,384 – is structurally deficient, according to the U.S. Department of Transportation. Another 80,317 bridges are functionally obsolete. It would cost \$9.4 billion annually for 20 years to eliminate bridge deficiencies.
- There are 3,300 unsafe or deficient dams. And the U.S. Army Corps of Engineers reports that nearly 150 levees are at risk of failing in a major flood.
- The Environmental Protection Agency estimates that more than \$50 billion is needed to address sewer overflow problems that pollute our water.

- In 1999, the average public school building was about 40 years old, according to the National Center for Education Statistics. Old schools with obsolete designs often can't accommodate early childhood education, technology and modern science labs.
- In the 21st century, infrastructure includes the Internet. Today, the United States ranks 15th of 30 developed nations in overall broadband penetration, lagging far behind many countries in its share of fiber optic Internet connections.

## POLITICAL LANDSCAPE

The recent tragedies in New Orleans, Minneapolis and along the Mississippi River have served as ominous wake-up calls, highlighting the dangers of allowing major public works to deteriorate. Meanwhile, higher gas prices and worsening traffic jams are daily reminders of our infrastructure deficiencies.

Rebuilding America's infrastructure will be costly. It requires concrete and steel, bricks and mortar, equipment and fiber optics, and skilled labor. Yet the public values less congestion, safer roads, better schools and economic growth.

Infrastructure issues also increasingly are seen as linked to energy conservation efforts. Energy independence, reducing our carbon footprint, and combating global warming all garner widespread support. A "green" approach to rebuilding America's infrastructure would be guaranteed broad support from the American electorate.

Education consistently ranks as a high spending priority for Americans, who understand that the way we educate our young people has a direct impact on how we compete in the global economy. And research shows that substandard school facilities hurt academic performance.

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The first step would be to halt the trend of declining spending on infrastructure. Since the Interstate Highway System was created more than 50 years ago, the nation's population has doubled and the number of vehicle miles driven has risen by five times. Yet since President Eisenhower left the White House in 1960, the percentage of domestic spending devoted to infrastructure has declined from 12.5 percent to 2.5 percent, or from more than 3 percent of gross domestic product to less than 2 percent.

Much of transportation spending is funded through federal and state gas taxes. With energy prices so volatile – taking a serious toll on low- and moderate-income families – political debates have been more focused on gas prices than on the use of the revenue. Higher energy prices have also spiked the demand for public transit, further stressing rail and bus lines across the country.

At the same time, the weak economy offers an opportunity to refocus on the nation's infrastructure. Greater investments can provide short-term stimulus and build the foundation for long-term growth. They could create jobs quickly, especially in the ailing construction industry, which would have a beneficial multiplier effect as money moves throughout the economy, and produce higher productivity that will spur more sustained economic growth.

The severity of the infrastructure crisis can cause cynicism and paralysis in policy circles and among the public. But it also means that even modest investments – relative to the massive needs and current underfunding – will keep bridges from falling down, reduce congestion, and improve American education, all while creating jobs and promoting economic growth.

## EPI SOLUTION: PUBLIC INVESTMENT WILL REAP DIVIDENDS

The deficits in public investments in infrastructure – including transportation, education and information – are large, and they cover the full array of capital assets. EPI has focused on a few areas, calling for the acceleration of investments that should be made anyway. That spending will have ripple effects, not only spurring greater economic activity, job creation and productivity, but also delivering educational, environmental, safety and quality-of-life benefits.

Further, because of the need to reduce greenhouse gas emissions and cut overall energy costs, a variety of infrastructure changes must be made to “green” the economy.

While state and local governments have struggled to meet school facility needs, serious building deficiencies have become the norm rather than the exception. Lawsuits have been filed in 31 states challenging the adequacy and equity of public education funding in low-income communities, with facility conditions being an element of those suits.

An infusion of federal investment would help eliminate some of the deferred maintenance and repair of existing school facilities. But schools also must modernize to meet 21st century imperatives. The expansion of early childhood education, for example, requires changes in classroom design for these youngest students. Schools need to incorporate voice, video and data highways

“The issue is not just the buildings themselves, but what our society needs to get from the schools. To graduate students who will successfully compete globally, we need world-class facilities, not crumbling buildings that don’t meet basic safety standards.”

– EPI President Lawrence Mishel

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throughout their facilities with electrical upgrades to support computers and other technology aids. Improving science skills requires modern new labs. And all this can be done in a way that improves energy efficiency.

The quality of school facilities has direct implications to the quality of teaching and learning, as well as the health and safety of students and staff. With facility deficiencies especially acute in school districts serving a high proportion of lower-income children, a federal infusion of funds would also help reduce the “achievement gap” between rich and poor students.

Investing in broadband build-out not only would improve education, but also expand opportunities for everyone. The United States now lags behind other nations in Internet development, especially in ensuring affordable access for low-income neighborhoods and rural areas. Through loan guarantees and grants that would spur broadband deployment, the United States could see improvements in education and health care, and ensure that low-income Americans can participate in the modern economy in which the Internet is an essential tool.

With a substantial backlog of transportation projects, an immediate infusion of additional federal funds could address dangerous bridges and levees, congested roadways, and increased demands for use of airports and mass transit systems. Numerous studies have identified tens of billions of dollars worth of projects that could begin soon after being funded.

The benefits of investing in infrastructure – along with such critical public services as health care and education – must be weighed against the understandable desire to reduce the federal budget deficit. While it is important to ensure that the nation’s debt does not spiral out of control, the failure to invest in the future also carries significant costs. As Nobel Laureate Joseph Stiglitz noted at a recent EPI

event, “We’ve had six years of badly managed budgets and badly managed macroeconomics. We have to look at what the realities of our economy are today. And that includes addressing some of the important social and economic priorities.” Sound budget policy requires balancing deficit reduction with other priorities.

Greater investments in our infrastructure would offer a short-term economic stimulus and put people back to work. Construction employment has fallen by over 600,000 jobs since hitting a peak in 2006, leaving a workforce ready to do the job. But beyond the job and economic growth these investments would make, they would also reduce the use of expensive fuel, curtail damage to the global climate, improve safety and enhance the quality of life for all Americans.

## POLICY RECOMMENDATIONS

### **To rebuild public schools, Congress should:**

- Make an immediate investment of \$20 billion to help eliminate existing backlogs in school maintenance and repairs. This would generate 250,000 skilled jobs.
- Just as the federal government now contributes about 10 percent of local school district operating budgets, it should provide a similar share for capital expenditures, or roughly \$5.9 billion annually.

### **To improve broadband Internet access, and the quality of the network, Congress should:**

- Provide loan guarantees and grants to states for public-private partnerships that accelerate broadband deployment, especially in underserved areas.
- Fund technology demonstration projects that might have broad social value.
- Augment universal service programs to improve broadband penetration in high-cost and underserved areas.

## **To address the serious deficiencies in the nation's transportation infrastructure, Congress should:**

- As part of an economic recovery package, accelerate funding in all areas of significant need – including roads, bridges, levees and dams, wastewater treatment facilities, airports and mass transit – perhaps starting with an immediate, short-term infusion of at least \$75 billion. This investment should focus on “fix-it-first” and ready-to-go projects to ensure that jobs are created quickly.
- Consider creating an infrastructure investment bank to improve financing streams and project selection processes. A federal investment bank, similar to one proposed by Sens. Christopher Dodd (D-Conn.) and Chuck Hagel (R-Neb.), could make loans or loan guarantees to non-federal governments for projects that meet certain criteria.

## **RESOURCES**

“Investing in U.S. Infrastructure: Promoting economic stimulus and growth,” by John Irons, EPI Briefing Paper #217

“Good Buildings, Better Schools: An economic stimulus opportunity with long-term benefits,” by Mary Filardo, EPI Briefing Paper #216

“Strategy for Economic Rebound: Smart stimulus to counteract the economic slowdown,” by Lawrence Mishel, Ross Eisenbrey, and John Irons, EPI Briefing Paper #210

“A Rescue Plan for Main Street” by John Irons and Ethan Pollack, EPI Policy Memorandum #132



# MANUFACTURING JOBS FOR A GREEN FUTURE

**“Most innovation does not come from some disembodied laboratory. In order to innovate in what we make, you have to be pretty good at making it – and we are losing that ability.”**

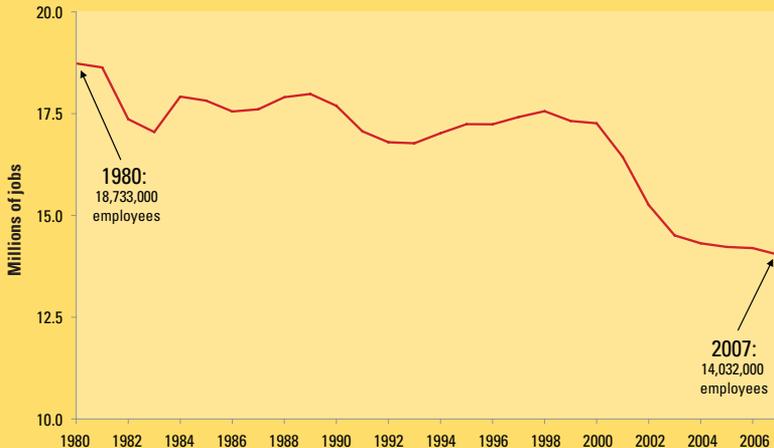
— STEPHEN S. COHEN, UNIVERSITY OF CALIFORNIA, BERKELEY

# T H E P R O B L E M

Some of the best jobs in America are disappearing at an alarming rate. The average manufacturing worker earns \$725 per week, 20 percent higher than the national average. In the three years between 2000 and 2003, 16 percent of these manufacturing jobs disappeared, many of them outsourced to other countries – and if current policies continue, there is no end in sight to these job losses.

The decline in manufacturing has hurt the U.S. economy in ways that go beyond the loss of high-paying jobs. Manufacturing plays an integral role in innovation. In fact, the sector was responsible for 60 percent of all U.S. research and development spending in 2003. With a shrinking manufacturing base, the nation faces significant challenges in maintaining its status as a leading innovator, which undermines the U.S. ability to compete globally, fight global warming, and wean the nation off fossil fuels.

**TOTAL U.S. MANUFACTURING EMPLOYMENT, 1980-2007**



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It is that last issue – environmental sustainability and energy policy – that poses both challenges and opportunities for U.S. manufacturing. The United States faces three major, interconnected threats: weakened national security because of dependence on foreign oil, environmental calamity caused by climate change and an ongoing but largely unaddressed de-industrialization of the domestic economy. The U.S. economy and consumers have also been hurt financially as the price of gas has soared. The way to revitalize high-productivity manufacturing may lie along the road to alternative and renewable energy.

## POLITICAL LANDSCAPE

Former Vice President Al Gore's award-winning *An Inconvenient Truth* in 2006, and the Nobel Peace Prize he shared last year with a UN scientific group, dramatically raised public awareness of the global threat of climate change, and many organizations are busy today developing programs to stimulate the growth of "green jobs" tied to environmental renewal.

The four-year-old Apollo Alliance has brought business, labor, environmentalists and community leaders together to promote policies and initiatives to speed investment in clean energy technology and energy efficiency. The Blue-Green Alliance of the United Steelworkers and the Sierra Club has joined with Gore's "We" campaign to promote "green jobs" across the country, including a series of town hall meetings held during June.

While these important stakeholders are promoting the nascent green-jobs industries, foot-dragging in Congress and by the Bush administration has stood in the way of these efforts. The Renewable Energy and Jobs Creation Act, to extend tax incentives for solar, wind and other alternative energy, was

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tied up in the Senate in June 2008. The Bush administration edited warnings about climate change out of scientific reports, and threatened to veto a cap-and-trade measure.

Even President Bush acknowledged that the threat is real and must be addressed, and a growing consensus to act appears to be forming in Congress. Barack Obama, during his presidential campaign, vowed to promote policies that will spur “green jobs.” Solar, wind, biofuel and other renewable sources of energy have been promoted to varying degrees by federal and state laws, and public opinion polls have consistently shown broad support for strong environmental standards.

## **EPI SOLUTION: TAKE HIGH ROAD TO GREEN MANUFACTURING**

Renewable energy is largely manufactured energy. Increased reliance on wind, solar and other forms of renewable energy requires more manufactured goods – like turbines for wind power, or glass for solar panels – than does traditional oil extraction. And increased energy efficiency requires retrofitting and workers who are trained to install these new technologies.

Thus, energy sustainability offers the promise of creating new “green jobs,” but if the right policies are not in place, the move to reduce greenhouse gas emissions could hurt working families. What is needed is a balanced approach that would fairly and efficiently fight climate change while promoting good jobs in manufacturing. Otherwise, energy costs will go up without a reduction in costs elsewhere, low- and moderate-income families will be hit the hardest, and many green jobs will be located abroad.

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Manufacturing plays an important role in meeting national goals of energy sustainability and infrastructure renewal, and meeting these goals both depends on, and contributes to, a high-road economy in which high productivity pays dividends for companies and workers alike. Manufacturers that coordinate with highly skilled workers and suppliers achieve high rates of innovation and quality, resulting in high productivity that allows them to pay fair wages to workers and fair prices to suppliers while earning fair profits.

A critical component of boosting U.S. manufacturing and creating jobs of the future is an expanded version of the Manufacturing Extension Program (MEP), which provides technical and business assistance to small and medium-sized manufacturers at the state and local levels. Manufacturing extension centers can channel recent innovations generated in government and university laboratories to a manufacturer that lacks access to such information. These centers also offer marketing training and other assistance.

Federal support for the MEP has shrunk from \$138.4 million in 1995 to only \$90 million in the 2008 fiscal year. Boosting federal support to \$350 million a year would allow the MEP to improve outreach, as well as to provide subsidized training for individuals, and to help companies develop new products, find new markets and quickly respond to customer needs.

Federal policy should focus on boosting high-road manufacturing in renewable energy and other areas that support a sustainable environment while also creating jobs for the green future. For example, generating 20 percent of U.S. electricity from renewable sources would cost \$35 billion per year over 10 years and create 350,000 jobs. This could be funded by taxing carbon emissions or auctioning permits to emit carbon.

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Repealing \$3.6 billion in annual subsidies to oil and gas companies could make available seed money to develop and implement methods to increase energy efficiency. This proposal would save at least 18,000 jobs in the auto industry alone by facilitating greater production of hybrids and other advanced vehicles.

In 2007, Congress passed legislation to authorize a loan program to help the auto companies re-tool old factories to produce advanced technology vehicles and components in the United States. Congress ought to fully fund this program in the FY 2009 Energy and Water appropriations bill.

Investing heavily in green infrastructure, such as mass transit and renewable energy installations, would not only help reverse the deterioration of our infrastructure, but also create jobs. Reliable economic models show that each \$1 billion of public investment creates between 27,800 and 77,000 jobs.

## **POLICY RECOMMENDATIONS**

With the right policies, the United States can have a revitalized manufacturing sector that brings with it good jobs, rapid innovation and the capacity to pursue national goals, including environmental sustainability. While EPI favors policies that shift our nation away from reliance on fossil fuels and toward renewable energy, we recommend that it be done in a way that minimizes economic dislocation and provides training and adjustment assistance.

Importantly, national policy must go beyond a project-by-project approach. Simply installing solar generators or wind farms in a scattered fashion runs the risk of relying too heavily on goods manufactured abroad. Green investments

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must be coupled with policies to encourage the reestablishment of a vibrant domestic manufacturing base.

At the same time, the federal government can be an honest broker in providing incentives for private industry to pursue socially beneficial goals, including the creation of “green jobs.” In particular, EPI recommends a public investment of at least \$100 billion over two years that would:

- Create, through direct federal spending, tax credits and loan guarantees, 2 million jobs to retrofit buildings, expand mass transit and increase production in renewable energy sources
- Increase investment in the Manufacturing Extension Program, with funds earmarked for renewable energy industry development and training.
- Establish competitive grant programs to create discussion forums to coordinate joint research in new technologies, tooling and production processes.
- Establish a low-interest revolving loan program, such as that in legislation proposed by Sen. Sherrod Brown (D-Ohio), for small firms to develop ideas for new products into prototypes and production-ready drawings.

In addition, EPI supports federal and state incentives to:

- Continue funding the Advanced Technology Vehicle Manufacturing Incentive Program so that auto companies and suppliers can re-tool older facilities to produce fuel-efficient vehicles and major components in the United States.

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## RESOURCES

“Renewing U.S. Manufacturing: Promoting a High-Road Strategy,” by Susan Helper, EPI Briefing Paper #212

“Energizing Prosperity,” by George Sterzinger, EPI Briefing Paper #205

“The Importance of Manufacturing: Key to recovery in the states and the nation,” by Robert E. Scott, EPI Briefing Paper #211

“Green Recovery: A Program to Create Good Jobs and Start Building a Low-Carbon Economy,” by Robert Pollin et al, Center for American Progress, Political Economy Research Institute



# PATHWAYS OUT OF POVERTY

*“In a rich, advanced economy like that of the United States, poverty should be viewed as an aberration. To the extent that poverty exists it is largely a failure either of the market or of social policy.”*

— EPI SENIOR ECONOMIST JARED BERNSTEIN

# T H E P R O B L E M

The persistence of poverty in the United States challenges our view of this wealthy country as a land of opportunity, where all who work are able to live in dignity, support their families, and provide their children with a good education and a chance for advancement. In 2006, 12.3 percent of U.S. residents were considered poor by the federal government – that’s 37 million people, 13 million of them children – and the share has been rising in recent years.

For African Americans, the trends are especially grim. Although poverty rates dropped slightly during the robust job market of the late 1990s, it began climbing again in 2000, at twice the rate for whites. In 2006, 24.3 percent of African Americans – nearly one in four – were deemed poor.

Meanwhile, gaps between the wealthy, the middle class and the poor have been widening again after shrinking during the late 1990s.

The average family income for the bottom fifth of the population in 2006 was \$1,071 below its peak in 2000. Now, basic family expenses including food, gasoline, heating and health coverage are all rising, placing a special burden on low-income people, who have always spent a greater share of their money on necessities.

Making matters worse, 9 million more Americans have lost their health coverage since 2001 – for a total of 47 million uninsured, including 9 million children – and low- and moderate-income families have been the most vulnerable to this trend. More than 2.2 million families are facing foreclosures on their mortgages, many of them low- and moderate-income households that were taken advantage of by predatory lenders.

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## THE POLITICAL LANDSCAPE

In the aftermath of Hurricane Katrina, when receding floodwaters exposed devastated families and communities, Americans took a new look at the least fortunate among us. But despite acts of generosity by individual citizens and ringing rhetoric from our nation's leaders, the dynamics of poverty remained unchanged. The images of extreme suffering from those days may actually have obscured an important truth: For all their hardships, those who are struggling to join the middle class have much in common with those who are struggling to remain in the middle class.

Most low-income households have a working adult. Many moderate-income families are one layoff notice or major illness away from poverty. Indeed, in this increasingly insecure economy, one-third of all Americans will experience poverty at some point in their lives.

In recent years, many national, state and local initiatives to help low-income people have enjoyed substantial public support despite resistance from a political system dominated by wealthy special interests. These include tax credits for low-income families with children, higher minimum wages and "living wage" laws, such job-related supports as child care and training, and health coverage extended to children from low-income families.

Over the past decade and a half, Americans' basic decency and progressives' increasing capacity to frame and fight for positive initiatives have resulted in some improvements in programs for low-income people that point the way to further gains. During the 1990s, the Earned Income Tax Credit (EITC) for low-wage workers was increased. The federal minimum wage has been raised several times since 1996, most recently in 2008. Thirty-one states and 140 local

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governments have set their minimum wages above the national level or set “living wages” for employees of contractors with the state or local governments.

In the aftermath of welfare reform, many state governments have provided work supports for former public aid recipients who are entering the labor force. These include child care, educational opportunities, job training and retraining, and assistance with transportation to and from work.

In 2007, both houses of Congress passed an extension of the children’s health insurance program (CHIP) but, by a narrow margin, were unable to override President Bush’s veto. In 2008, the Senate passed, by a veto-proof margin, supplemental unemployment benefits for long-term job seekers.

While such initiatives are only the first steps in a long journey, there is growing interest among a cross-section of Americans, including people of faith from across the theological spectrum, in finding new approaches to the problems of persistent poverty in the world’s wealthiest nation.

## **EPI SOLUTION: PUBLIC POLICY SHOULD MEET HUMAN NEEDS**

As EPI has long documented, official poverty measures are out of date and inadequate to the task of determining who is poor in America. Back in 1960, the federal poverty threshold for a family of four was about half the median income for a four-person family. Today, at about \$20,000 for a family of four with two children, it’s around 30 percent of the four-person median.

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Developed almost a half-century ago and updated only for inflation, these statistics fail to show how changes in living standards are reflected in 21st century family expenditures. They do not include child care costs, a necessity for many now that more family members are in the paid labor market.

That is why the official “poverty line” should be recalculated by adopting a new formula, as recommended by the National Academy of Sciences, using up-to-date information on consumer spending such as housing and medical costs. These more valid measurements show higher rates of poverty than the official level. Indeed, important and popular public programs like SCHIP have eligibility standards approximating twice the current poverty threshold. The vast majority of children living in families with incomes below twice poverty are eligible for the program, and, for all the difficulty in defending and extending it, political leaders from across the spectrum claim to support it.

As the nation struggles to jumpstart the economy and secure the middle class, the best opportunities for offering pathways out of poverty are to promote programs to restore overall prosperity, help working families share in the gains of their growing productivity, support efforts by low-income people to improve their own conditions, and strengthen the safety net for those who are in temporary trouble or are genuinely unable to support themselves. For most Americans, such efforts should be crafted and presented not as something we do for “them,” but as what we do together for “us.”

## POLICY RECOMMENDATIONS

Taking an ambitious and comprehensive approach toward alleviating poverty is not only the morally correct thing to do, it also makes economic sense for the nation as a whole. In order to move in that direction, we recommend the following:

### **Pursue economic policies that encourage full employment.**

#### **Provide a fair start in life and a lifetime of opportunity:**

- Improve and expand pre-natal health and nutrition programs.
- Extend health coverage to all families with children at home.
- Make decent child care available and affordable.
- Provide preschool for all, starting with kids from low-income families, and align pre-K programs and the first years of school.
- Invest in improving public schools in every community.
- Vigorously enforce civil rights laws and equal opportunity programs, ending discrimination by race, gender, ethnicity, immigration status and sexual orientation.

#### **Make higher education and career training available to all young people:**

- Increase and expand Pell Grants for four-year colleges and make assistance available for those attending two-year colleges.
- Improve, expand and modernize job training and retraining programs, building partnerships among business, labor, public programs and educational institutions, especially community colleges.

## **Provide disadvantaged youth with avenues to education and work.**

### **Make work pay:**

- Raise the minimum wage to half the national average wage and maintain it at that ratio with annual adjustments.
- Expand the Earned Income Tax Credit and the Child Tax Credit. (Ideally, this would be part of a comprehensive effort to expand “work supports” – see the recommendations below.).
- Restore workers’ rights to organize unions and bargain with their employers by enacting the Employee Free Choice Act. Union representation raises wages in traditionally low-wage industries and occupations. For instance, building service workers earn 35.4 percent more with union representation, childcare workers earn 26.2 percent more, and healthcare workers earn 12.6 percent more.

### **Expand “work supports” for low-wage workers and people entering or re-entering the workforce, to help workers make ends meet and encourage those outside the workforce to get and keep jobs:**

- Increase the maximum Earned Income Tax Credit (EITC) benefit for workers without children at home to 20 percent of their initial earnings and extend the credit to workers between 18 and 24 years old. Increase EITC benefits for families with three or more children by setting the benefit to 45 percent of initial earnings.
- Make the child tax credit fully refundable so that the lowest income families can benefit.
- Guarantee childcare assistance for low-to-moderate income workers.

- Expand the federal Housing Choice Voucher Program and subsidize home ownership.
- Simplify and expand eligibility for food stamps.
- Provide federal tax credits for the costs of commuting to work. This would be especially helpful to workers commuting from their homes in the inner cities to jobs in the suburbs and is particularly timely now that gasoline prices are rising.

**Improve, expand and modernize unemployment insurance programs, especially for long-term job seekers and part-time and temporary workers, and integrate job training and retraining and job placement.**

**Provide special assistance to communities in need, from inner cities and rural America to industrial areas suffering from the decline in manufacturing jobs.**

## **RESOURCES**

“Improving Work Supports: Closing the financial gap for low-wage workers and their families,” by Nancy K. Cauthen, EPI Briefing Paper #198

“Work, Work Supports, and Safety Nets: Reducing the burden of low-incomes in America,” by Jared Bernstein, EPI Briefing Paper #200

Testimony Before the Subcommittee on Income Security and Family Support of the House Committee on Ways and Means, February 13, 2007, Statement of Jared Bernstein, Ph.D., Director of the Living Standards Program, Economic Policy Institute



# BALANCING WORK AND FAMILY

**“Paid sick days are a basic right of people in the workplace. This is a matter of common sense. It is a matter of values.”**

— REP. ROSA DELAURO (D-CONN.)

# T H E P R O B L E M

Americans are among the hardest-working people in any advanced economy. But our nation's public policies and corporate practices are not keeping pace with people's needs for flexible work schedules and more time at home to raise their children and care for ailing or aging family members.

Over the past three decades, Americans have experienced dramatic changes in how we earn our livings and raise our children. In two-thirds of families with children at home, both parents work for pay, almost always outside the home. In today's America, the most common family type is the two-earner couple, while one-third of children are being raised by single parents, usually single mothers.

Working parents juggle their work schedules and several forms of child care, including preschool or other formal or informal care for children who are too young for kindergarten and after-school (and sometimes before-school) programs for school-aged children. Still, 1.3 million children below the sixth grade spend at least some time each day on their own.

Meanwhile, parents are putting in longer hours at work. Between 1979 and 2000, the typical two-parent family increased their annual work schedules by 500 hours. The average adult American works 1,966 hours a year. That is 70 hours a year more than the average Japanese and 350 hours – almost nine weeks – more than the average European. From the mid-1990s through the middle of this decade, the average American's leisure time has fallen from 26 to 20 hours a week – nearly 25 percent.

Not surprisingly, about a third of the workforce reports being chronically overworked. More than 60 percent of working Americans say they would prefer to work fewer hours, but nearly 90 percent say they never have enough time to

get everything done at work. More than a third of employees do not use all of their vacation time, and very few (only 14 percent) take off two weeks or more at one time.

Compared with 19 other countries with comparable per capita income, the United States provides the fewest parental leave benefits, in terms of the length of the leave and paid time off. Unlike 145 other nations, the United States does not guarantee even one paid sick day or parental leave day. Indeed, the United States falls two weeks short of the International Labor Organization's basic minimum standard of at least 14 days of general paid leave.

“Paid sick leave is as American as apple pie and baseball.”

— Debra Ness, president,  
National Partnership for Women  
and Families

Corporate practices also lag behind other countries. Excluding federal employees and servicemen and women, one-half of American workers have no paid sick days.

## THE POLITICAL LANDSCAPE

Largely because of the social and economic stresses on American households, political leaders from across the spectrum compete with each other in proclaiming their devotion to “family values.” But when it comes to promoting policies that help families meet their challenges, even the nation’s most recent accomplishments underscore how much remains to be done.

After almost 10 years and two presidential vetoes, the Family and Medical Leave Act (FMLA) was passed by both houses of Congress and signed into law by President Clinton in 1993. For workers who are ailing, caring for a newly born

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or adopted child, or assisting a seriously ill child, spouse or parent, the FMLA requires firms with 50 or more employees to provide up to 12 weeks of unpaid leave and continuation of health insurance, as well as reinstatement in the same job or an equivalent position.

This landmark law has enabled about 7 million women and men every year to meet their responsibilities to their families without losing their jobs. Since 1993, workers have used the FMLA approximately 100 million times, providing ample evidence of the need for family and medical leave among Americans from all walks of life. About half the workers took temporary leaves to care for themselves, another quarter were caring for a new child, and another quarter were caring for other immediate family members.

Surveys show that the FMLA is very popular among Americans of every background, viewpoint and walk of life, and there is widespread sentiment for extending it. This year, for the first time since the FMLA was enacted, Congress has extended the law to cover members of military families who will now be able to take up to 26 weeks of leave to help care for their soldiers injured in combat. Military families will also be able to use the FMLA leave to help them cope with the deployment of close relatives.

Family-friendly policies are overwhelmingly popular among employers, as well as employees. In a survey conducted by the U.S. Department of Labor, large majorities of employers said the FMLA has a positive or neutral effect on productivity (83 percent), profitability (90 percent), growth (90 percent) and employee morale (90 percent). With family-friendly policies, businesses cut costs associated with absenteeism, employee errors, turnover, recruitment and training.

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## **EPI SOLUTION: FAMILY-FRIENDLY POLICIES**

The Agenda for Shared Prosperity calls for the United States to catch up with the other advanced economies by creating a comprehensive family policy program, consisting of three main initiatives:

### **Expanded and Paid Family Leave**

Important as it is, the FMLA leaves two groups of workers with unmet needs – those who are not covered at all and those who cannot afford to take unpaid leaves. The FMLA is limited to workplaces of more than 50 employees. This excludes about 48.1 million workers – more than 41 percent of the workforce. Meanwhile, millions more workers earn too little to afford to take unpaid leaves except under the most extreme circumstances, and these are the very workers whose employers are the least likely to provide paid leaves.

The FMLA should be expanded to smaller firms, preferably to all firms engaged in interstate commerce, the criterion used in the Fair Labor Standards Act, which regulates wages and hours. It is also time to provide paid leaves. First introduced in 2004 by Sen. Edward Kennedy (D-Mass.) and Rep. Rosa DeLauro (D-Conn.), the Healthy Families Act would require employers of 15 or more workers to provide up to seven paid days a year for either the employees' own illness or to care for a family member.

While Congress considers paid family and medical leave, state and local governments are moving forward with their own policies. California, New Jersey, Washington and the District of Columbia all have enacted paid sick days and/or paid family leave, as did the voters in the city of San Francisco. Similar propos-

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als are being advanced in more than two dozen state legislatures, including Illinois, Massachusetts, New York and Oregon.

### **Greater Flexibility on the Job**

Federal, state and local governments should continue to provide and expand flexible schedules for their own employees while encouraging private employers, particularly government contractors, to do the same. Just as companies are recognized for technological innovation, environmental responsibility and other accomplishments, companies should receive recognition and awards for family-friendly policies. Federal, state and local executive orders ought to require contractors to provide family-friendly accommodations and to report annually on the usage of these options by different types of workers at various levels of responsibility.

After the FMLA has been expanded and paid leaves provided, Congress should enact legislation similar to a law in the United Kingdom that provides employees with the right to request a change in their contractual working arrangements – flextime, fewer hours or work from home – but limits this right to parents of young children and others who have family care-giving responsibilities. The U.K. law obligates employers to consider and respond to, but not necessarily to agree to, flexible work arrangements.

### **Comprehensive Child and Elder Care**

Research reveals that early years are crucial for children’s social and intellectual development. As part of a comprehensive education program, the Agenda for Shared Prosperity calls for expanded and improved childcare and early childhood education, universal pre-kindergarten programs and expanded after-school

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programs. Such services would make sure children start school ready to learn and receive the additional instruction they need to succeed in school.

Similarly, when it comes to caring for older Americans, Medicare currently covers nursing home care only insofar as is necessary to rehabilitate patients after acute illnesses. Middle-class seniors have to “spend down” all their assets to meet eligibility criteria for Medicaid to cover the costs of long-term care. Together with a comprehensive healthcare program, the Agenda for Shared Prosperity supports expanded subsidies for long-term care for middle- and low-income families.

## **POLICY RECOMMENDATIONS**

The Agenda for Shared Prosperity proposes a new generation of public policies to offer today’s families the supports they need to make their way in a churning economy and a changing society:

- Expand the Family and Medical Leave Act.
- Provide paid family and medical leave.
- Encourage employers to offer family-friendly policies.
- Provide expanded childcare and early childhood education, universal pre-school and expanded after-school programs.
- As part of a comprehensive healthcare program, expand subsidies for long-term care for older Americans.

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## RESOURCES

“The Work-Family Balance: An Analysis of European, Japanese, and U.S. Work-Time Policies,” by Janet C. Gornick, Alexandra Heron, and Ross Eisenbrey, EPI Briefing Paper #189

“An economy that puts families first: Expanding the social contract to include family care,” by Heidi Hartmann, Ariane Hegewisch, and Vicky Lovell, EPI Briefing Paper #190

Transcript of EPI panel discussion, May 24, 2007, Including presentations from Rep. Rosa DeLauro, Heidi Hartmann, and Janet Gornick



# IMMIGRATION REFORM

“Our values are tarnished when we allow 12 million human beings to live in the dark shadows of abuse as undocumented immigrants. Our economy is harmed when our immigration system fails to protect the American dream of a good job and decent wages.”

— SEN. EDWARD M. KENNEDY (D-MASS.)

# T H E P R O B L E M

The immigration system is broken and must be fixed. There is no clearer evidence than the 7 million unauthorized immigrants who currently labor in the U.S. workforce, often under exploitative and dangerous conditions. Hundreds of thousands more have ill-defined rights as legal guest workers in a wide range of industries and occupations.

The existence of this under-protected segment of the workforce undermines labor standards for U.S. residents, including both authorized immigrants and the native-born, fanning anti-immigrant sentiments that are exploited by demagogues. This poisonous atmosphere makes it all the more difficult to find reasonable solutions.

For all the hostility directed toward them, however, unauthorized immigrants also find themselves coveted by employers who seek a docile workforce that will accept low wages, no benefits and substandard conditions. Relegated to the shadows, these workers are often reluctant to demand their rights to a minimum wage, overtime premiums, and a safe and healthy workplace. Their ability to join unions and bargain for better wages, benefits and conditions is constrained. In fact, some employers have taken to calling federal immigration authorities at the slightest hint of an organizing campaign.

Unauthorized immigrants also are denied most safety net programs such as Social Security, Medicare, Medicaid and unemployment insurance. The lack of adequate health care coverage leads many to postpone needed medical attention and to eventually turn to hospital emergency rooms – at considerable cost to the health care system.

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Much of the current flow of illegal immigration has its roots in the original U.S. guest worker scheme, the Bracero Program, and its successor, the H-2A visa, which created a class of indentured and exploited farm workers, suppressing wages for all farm workers.

More recently, the fast-growing H-2B non-agricultural guest worker program also has become problematic, increasing from fewer than 10,000 visas in 1993 to 130,000 in 2007. Covering employees in industries such as forestry, landscaping, hospitality and construction, this program has encouraged employers to hire immigrant workers on a temporary basis under the false theory that there are not enough Americans available to do the job. Thousands of H-2B workers have been subjected to fraudulent recruiting, wage theft, violence, squalid housing and other abuses.

Despite the well-documented abuses of guest worker visas in low-wage occupations, a new guest worker program was created in 1990 to cover high-skilled workers. Not surprisingly, the H-1B visas have had an adverse impact on wages in information technology and related industries and occupations.

More than 15 years after the inception of the H-1B program, employers continue to complain about shortages of skilled tech workers and to call for more such visas, while little effective training of U.S. workers has been accomplished. Indeed, at many companies, foreign workers have been hired under H-1B visas, trained to do jobs performed by U.S. workers, and sent back to their home countries to perform work that is now off-shored from the United States.

These developments are part of the larger challenge of unregulated globalization that benefits corporate interests and disadvantages working people in

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every country. With the failure of trade and development policies to provide prosperity in much of the world, millions of dislocated workers cross national boundaries in search of better lives for themselves and their families. For example, provisions of the North American Free Trade Agreement (NAFTA) devastated small farmers in Mexico and, as a result, the number of people crossing the border illegally from that country has more than doubled.

Because forecasters expect no net increase in the number of native-born Americans in their prime working years (ages 25 to 54) for the next 50 years, the flow of immigrant workers will have an important impact on the future strength of the American economy.

At the same time, it is critical to remember that there is no job Americans will not do if it pays a reasonable wage. According to the Center for Immigration Studies, of 473 occupational titles, only four – stucco masons, tailors, produce sorters and beauty salon workers – are dominated by immigrants, including authorized and unauthorized workers. Even in those occupations, native-born workers hold more than 40 percent of the jobs.

Similarly, there are more credentialed information technology workers and engineers than there are unfilled positions in jobs covered by the H-1B program. There are no labor shortages that necessitate the expansion of our current “guest worker” programs, let alone the creation of a large new guest worker program.

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## THE POLITICAL LANDSCAPE

Throughout our nation's history, waves of newcomers have arrived in this country in search of freedom and a better life. While the Statue of Liberty symbolizes America's welcome to the "tired" and "poor," each new group also has aroused ethnic, racial or religious resentments. In spite of the obstacles they faced, however, each wave of immigrants eventually contributed to, and benefited from, the bounty of our economy.

Immigration is an emotionally charged issue, with legitimate public anxieties exacerbated by right-wing extremists. While some nativists oppose all immigration, employers seeking an abundant labor pool consistently lobby for more. And many Americans and permanent residents rightfully seek to be reunited with family members who remain outside the United States. Tugged in opposing directions, the Bush administration and members of Congress failed to reach agreement on reforms, despite several concerted efforts and widespread acknowledgement that the problem is critical. Serious reform will likely have to wait until 2009 or beyond.

## EPI SOLUTION: THE AMERICAN WAY

The foundation for a fair and effective immigration policy is to recognize and regulate the forces perpetuating unauthorized immigration and make immigration an integral component of the social and economic policies to promote broadly shared prosperity in the United States, as well as in Mexico and other countries.

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Stronger border controls and internal enforcement processes must be part of the effort to reduce unauthorized immigration, but they are not the full answer. The most effective method of discouraging unauthorized immigration is to make it more difficult for employers to hire and exploit these workers. Jobs are the magnet that draws most unauthorized immigrants. We need an efficient method to verify work status that minimizes the opportunity for employers or employees to cheat, coupled with very strong sanctions against employers who willfully violate the law.

In addition, immigrant workers, regardless of their status, must be guaranteed the same protections as all workers, including the minimum wage, overtime pay, safe working conditions and the right to join unions.

Many unauthorized immigrants and their families make significant contributions to their communities and their workplaces and should have the opportunity to earn permanent legal status. For such workers, there should be a broad legalization program that makes no distinction based on country of origin and allows immigrants to attain legal resident status with eventual opportunities for citizenship.

Every newly legalized alien should have the right to petition for visas for family members on the same basis as other legal residents. The Immigration Reform and Control Act's failure to reunify the families of the more than 2.5 million undocumented aliens whose status was adjusted after 1986 was a major cause of illegal immigration.

Congress should reform guest worker visa systems to tie their numbers to real economic indicators, such as actual shortages of workers able to fill jobs at prevailing wage rates, not simply employers' claims. Whether they arrive as temporary employees or authorized immigrants, foreign workers should come to the United States with the same workplace protections and wage rates and salary scales as other workers.

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Finally, we need new efforts to build a shared prosperity among and within the world's nations, especially in North America, as EPI's founding president, Jeff Faux, has urged. In cooperation with Mexico, the United States and Canada should encourage economic development in areas that send large numbers of immigrants to this nation. The United States should also negotiate with Mexico and Canada to strengthen NAFTA's labor agreements to limit wage-cutting competition and to provide workers in all three nations with greater rights.

## **POLICY RECOMMENDATIONS**

Creating shared prosperity in the 21st century requires fair and workable answers to the problems posed by unauthorized immigration, exploitative guest worker programs, and the unregulated globalization that creates massive migrations of workers. EPI proposes legislation that would:

- Develop a stronger work authorization system with serious sanctions for employers who cheat.
- Discourage the exploitation of unauthorized immigrants by providing them with the same workplace protections and social benefits as other workers. Wage, hour and safety laws already on the books should be vigorously enforced.
- Create a mechanism for otherwise law-abiding unauthorized workers to earn permanent legal status with a pathway to citizenship. Permit reunification of families.
- Strengthen border security and internal control of foreign visitors.
- Reform guest worker programs to prevent displacement of U.S. workers, reflect economic realities and reduce the economic incentives for hiring temporary workers from overseas.

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- Create new economic development programs for impoverished, immigrant-exporting areas of Mexico.
  - Strengthen labor protections under NAFTA for workers in Mexico, the United States and Canada.

## **RESOURCES**

“Outsourcing America’s Technology and Knowledge Jobs,” by Ron Hira, EPI Briefing Paper #187

“Getting Immigration Reform Right,” by Ray Marshall, EPI Briefing Paper #186

“Globalization That Works for Working People,” Jeff Faux, EPI Briefing Paper #179

“Immigration Reform: Getting It Right,” an EPI panel discussion with Mary Bauer, Ross Eisenbrey, Ron Hira, and Ray Marshall, March 28, 2007



# TRADE AND GLOBAL INTEGRATION

“The evidence is overwhelming that what was once thought of as America’s natural competitive advantage – skills, technology and organization – can now be duplicated or even surpassed by other nations.”

— JEFF FAUX, ECONOMIC POLICY INSTITUTE

# T H E P R O B L E M

Americans are losing ground in the global marketplace, where corporate interests trump all others in rulemaking for international trade. Missing in action: the U.S. government, which has abdicated its responsibility to ensure that globalization not only benefits global investors, but also leads to broadly shared prosperity.

The United States has shed 7 million jobs tied to trade since the late 1970s, when imports began to grow faster than exports. At the same time, changes in economic policy and technology have essentially doubled the global labor supply, to 3 billion workers, since 1989. In response, many “American” corporations have been relentlessly moving production, business services and technology outside the country. Some 50 percent of all manufacturing production of U.S.-based companies is now located in foreign countries, and 25 percent of the profits of U.S. multinational corporations are generated overseas – a trend that is growing.

This movement of jobs, as well as the threat of shipping jobs overseas, has predictably put downward pressure on the wages of millions of U.S. workers. Meanwhile, government has failed to mobilize domestic resources to offset this pressure, ceding authority for crafting the rules of the global trading system to the World Trade Organization, dominated by multinational corporations.

Between 1979 and 2007, productivity in the U.S. economy rose 70 percent, while real compensation (including benefits) of non-supervisory workers rose only less than 2 percent. Thus, the benefits of this evolving form of globalization are being concentrated among those at the top of the income and wealth ladder, while working families at the middle and the bottom have borne the costs.

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While globalization has undercut the economic security of millions of Americans, it also has dramatically weakened the nation's financial stability. For three decades we have been buying more from the rest of the world than we've been selling, and are borrowing to make up the difference. Massive borrowing from the rest of the world has obscured the economic damage. But this is unsustainable. Already the dollar has plunged in world trading, even as policymakers ignore the mercantilist exchange-rate policies of major trading partners.

We are living on borrowed time. Without a new globalization strategy, our incomes, our currency and our ability to influence world events will continue to deteriorate.

## POLITICAL LANDSCAPE

The issue is not "free trade versus protectionism." Most of the trade deals struck by the United States over the last few decades have not been primarily about "free trade" in goods and services already produced. They have been designed to undercut the domestic bargaining position and living standards of American workers by shifting U.S. production to other nations where labor is cheaper. The president of Peru invites U.S. companies to "come and open your factories in my country so we can sell your products back to the U.S." This is not what Adam Smith had in mind.

The rules of NAFTA, the WTO and the many bilateral agreements that have followed were written to promote the interests of global investors and to undercut the interests of consumers, workers and the environment. These rules do not allow for any rights other than property rights. Human rights, for example, fall under some other jurisdiction, we are told, although no other international organization affords workers status in this trade debate.

One upshot of this system is that governments are prohibited from effectively regulating imported goods produced by exploiting labor and the environment, and even face radical restrictions on economic policy that is wholly unrelated to trade, such as requirements to protect corporate patents and other intellectual property, even when it imposes large economic costs on their own citizens. While multilateral agreements are encouraged, human rights are not part of the talks, by design of the rule makers.

“America must adapt to the reality that U.S. multinationalists’ goals may no longer dovetail with the national interest.”

– Jeffrey Garten, Dean,  
Yale Business School

Because the labor and environmental movements still have political clout, their interests have been carried into the public debate, and in the legislative arena, but to little effect thus far. Trade agreements largely remain the purview of corporate interests, with public interests shunted into side agreements, and no provision for enforcement.

In March 2008, House Speaker Nancy Pelosi may have effectively killed the U.S.-Colombia Free Trade Agreement, using a procedural move to delay a vote until 2009, when President Bush will be gone. Obama has called for renegotiating NAFTA, and Sen. Hillary Clinton urged a “time out” in trade agreements, echoing EPI’s Jeff Faux’s call for a “strategic pause” in the current rush to enact more trade deals.

The most pressing trade issue confronting the nation, however, may be the burgeoning trade deficit with China, which has managed to subsidize state industry and manipulate the value of its currency for mercantilist gain, both with impunity. The U.S. trade deficit with China increased from \$50 billion in 1997 to \$256 billion in 2007, at a cost of more than 2 million U.S. jobs. Additionally, over the past year, a wave of “toxic imports” from China – including tires, fake drugs, contaminated human and pet food, and lead-tainted toys – has prompted a flurry of legislative activity.

## EPI SOLUTION: MAKING GLOBALIZATION WORK FOR WORKING AMERICANS

Globalization's "losers" extend well beyond the uneducated and unskilled – and their ranks are growing. The idea that adverse impacts of trade could be reversed with job training and education clearly has not been borne out. Americans are working longer today than ever before, and are certainly more educated. But they are losing ground.

Any serious U.S. response to ensuring that working Americans are not losers in the process of globalization would make U.S. social insurance systems truly universal, providing economic security (health care, pension income, disability and unemployment insurance) that does not depend on particular jobs or employers, but is a right to all working families.

Any such serious response also would reverse the hemorrhaging of public investment flows in the U.S. economy, supporting everyone from our youngest children (universal, high quality pre-K) to our most veteran workers, such as adjustment assistance to provide the skills and contacts needed to get the economically displaced back on their feet.

This public investment would reclaim what was once America's natural competitive advantage – skills, technology and organization. However, public investment must be well targeted to ensure that American workers, not just multinationals, share in the benefits. Today, research and

"Employers have replaced the basic social contract at work – the norm that hard work, loyalty and good performance will be rewarded with a good wage, dignity and security – with a norm that gives primacy to cutting operating costs and obtaining the highest possible profit."

– Prof. Thomas Kochan, MIT

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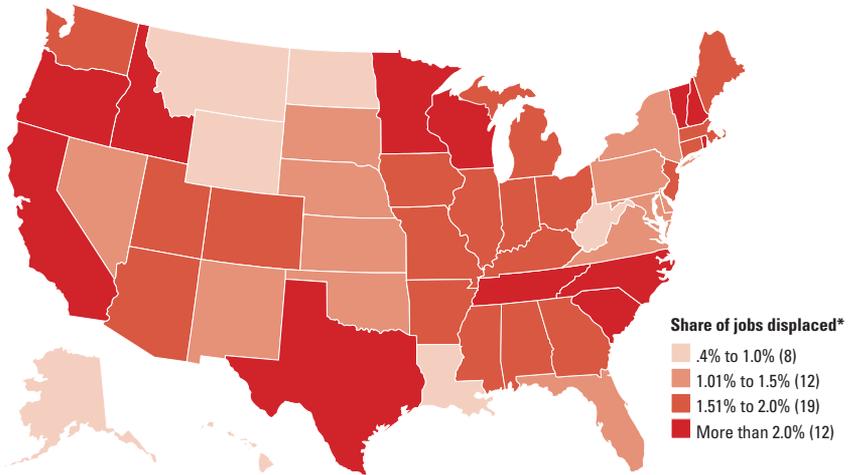
development jobs are off-shored with regularity, with “American” transnational corporations locating where workers come cheap and governments provide incentives.

An analysis of 57 recent major research initiatives of the U.S. telecommunications industry showed that all but five were located outside the United States. According to one estimate, 80 percent of engineering tasks in product development can be “easily outsourced.” Between 20 million and 40 million U.S. workers are vulnerable to having their jobs shipped to another country.

Lastly, a serious response to globalization does not give in to the fashionable-but-wrong fatalism regarding American manufacturing – that its time has passed, and there’s nothing to be done. The American manufacturing sector remains the largest and most efficient in the world, even with the deck stacked against it. For years, U.S. workers in manufacturing got more efficient without getting richer, but found themselves priced out of global markets by a soaring dollar. The dollar’s correction against many countries has helped exports grow, and the benefits should be apparent when we pull out of the current recession.

But a number of countries, most notably China, continue to pursue trade policies that subsidize their own exports and penalize ours with a purposefully undervalued currency. This policy has forced other poor nations in the world to emulate them for fear of losing export shares in the U.S. market, even as it has cost them dearly: Purchasing hundreds of billions of dollars to support a mercantilist exchange rate policy means that their own citizens’ purchasing power was eroded.

## TRADE WITH CHINA COSTS JOBS IN EVERY STATE, 2001-2007



\*Share of jobs displaced as a percent of total state employment in 2001.  
Source: EPI Analysis of Bureau of Labor Statistics and Census Bureau data.

In short, the currency management of China is a global problem, including for its own citizens. It is time that U.S. policymakers realized this and took concrete steps to stop it. A comprehensive new strategy on trade would mobilize all available resources both domestically and abroad to manage global integration in a way that benefits many, and not just a few.

## POLICY RECOMMENDATIONS

Restoring broadly shared prosperity within a globalized American economy requires bold thinking and bold solutions. For example, a key strategy to reduce our chronic trade deficits and growing foreign debt would be reducing our reliance on imported energy. Stimulating a nascent renewable energy industry that depressed the consumer appetite for fossil fuels is sound strategy both in fighting global warming and for improving American competitiveness.

### **New Responsible Trade Policies**

The next administration should:

- Declare a “strategic pause” in trade agreements.
- Shelve “fast-track” trade authority for the president in favor of congressional approval based on key negotiating milestones, including enforceable labor and environmental standards, protections against currency manipulation, and reciprocity in open markets and enforcement provisions. Passage of the recently introduced Trade Reform, Accountability, Development and Employment Act would be a good start.
- Open new global trade talks intended to close the U.S. trade deficit, similar to the Plaza Accord negotiated by Treasury Secretary James Baker in 1985.
- Review the H-1B “guest worker” program, with no new applications accepted during this review.
- Enter new negotiations to replace NAFTA with a more comprehensive agreement that establishes, at a minimum, a “bill of rights” for citizens of North America, enforceable in all three countries, and a commitment by the United States and Canada to provide substantial long-term aid to Mexico to

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nurture higher and sustainable economic growth – similar to the assistance the EU provided Ireland and Portugal in its economic integration process.

## **New Competitiveness Policies**

- Eliminate perverse tax incentives that favor overseas investments, and consider instituting value-added taxes that favor exports over imports, as other nations do.
- Support effective research and technology development that would be channeled to production in the United States.
- Re-emphasize locally based manufacturing extension services to provide technical, managerial and financial assistance to small and medium-sized firms producing in the United States.
- Launch a national energy development program, based on the Apollo Alliance, to kick-start and nurture a series of 21st century industrial sectors devoted to the generation of alternative energy that can spur technological advances and generate high-wage jobs.
- Fully fund the Advanced Technology Vehicle Manufacturing Incentive Program so that auto companies and suppliers can re-tool older facilities to produce fuel-efficient vehicles and major components in the United States.

## **Restore the Social Contract**

- Upgrade transition assistance for workers who lose their jobs, improving both training and income supports.
- Revive worker bargaining power by passing the Employee Free Choice Act to make it easier for workers to join unions, outlaw permanent replacement of strikers and broaden the category of workers who can bargain collectively.

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- Provide a baseline level of economic security for all citizens that does not depend on their specific job, while also removing the incentive for firms to improve competitiveness by shedding their responsibility for this security, by making health care and pension benefits universal, and funded through contributions from business, individuals and government.

## **New Global Rules**

- Insist, as a condition for U.S. participation, that any future WTO trade negotiating round include provisions for international labor rights.
- Influence the World Bank and the IMF to abandon export-led, one-size-fits-all development, and to promote programs that allow governments in poor countries to work through development paths more suited to their local conditions.
- Promote a high-level international planning group to develop a more stable and equitable global financial system, declaring that the United States no longer will act as banker to the rest of the world, printing more dollars to pay for its imports.

## **Reorganize U.S. Trade Regime**

- Create congressional Select Committees on Globalization to integrate the work of multiple committees dealing with trade and economic issues, to develop legislation that refocuses globalization from deal-making to economic policy.
- Relieve the Office of the U.S. Trade Representative of its cabinet rank, replacing it (and the Commerce Department) with a new department of industry and

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trade, with a mandate to support job creation in the United States. The new department should include a new division to enforce U.S. trade laws and rights under current agreements. This department will identify areas (such as currency manipulation) where new enforcement tools are needed.

## **RESOURCES**

“Globalization that Works for Working Americans,” by Jeff Faux, Economic Policy Institute briefing paper #179

“Renewing U.S. Manufacturing: Promoting a High-Road Strategy,” by Susan Helper, EPI Briefing Paper #212

“Costly Trade with China: Millions of U.S. Jobs Displaced with Net Job Loss in Every State,” by Robert Scott, EPI Briefing Paper #188

“Offsets and the Lack of a Comprehensive U.S. Policy,” by Owen Hernstadt, EPI Briefing Paper #201

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AGENDA FOR  
**SHARED  
PROSPERITY**

The recommendations in this Policy Handbook are based on EPI's Agenda for Shared Prosperity, which will be expanded and refined over time. For the latest updates, please check [www.sharedprosperity.org](http://www.sharedprosperity.org).



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Rep. Linda T. Sánchez,  
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