

ECONOMICS U\$A
21st Century Edition

PROGRAM #9

LABOR AND MANAGEMENT:
HOW DO THEY COME TO TERMS?

AIRSCRIPT

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Annenberg/ Learner (Logo and Music)

NARRATOR: FUNDING FOR THIS PROGRAM IS PROVIDED BY ANNENBERG LEARNER

DAVID SCHOUUMACHER: They were immigrant garment workers...uneducated, unskilled and underpaid. How could they fight for a living wage? For forty years, United Auto Workers' Presidents Walter Reuther, Leonard Woodcock, and Douglas Fraser won higher pay for their members. Why in 1979 would Fraser agree to take less? Walmart! For consumers, a low price paradise. For workers, a low wage existence. Why Is there such a disparity?

DAVID SCHOUUMACHER: Employers and labor unions, like buyers and sellers in the rest of the economy, trying to make the best deal for themselves. Labor and Management: How Do They Come To Terms? With the help of economic analyst Richard Gill and Nariman Behravesh we'll examine that question on this 21st Century edition of Economics U\$A. I'm David Schouumacher.

(MUSIC PLAYS – SERIES OPENING TITLES appears on screen)

PART I

DAVID SCHOUUMACHER: Fewer than one out of every three American workers is covered by a union contract. But organized labor's strength at the economy's pressure points...the big smokestack industries, the arteries of transportation and communication...make them a force to be reckoned with. For more than 75 years, labor

unions have been a fact of American economic life. But how did they get their power in the workplace and in the economy? We are a nation of immigrants...and never did more people come to the United States than around the turn of the century. Millions, most of them Jewish or Italian, unskilled and uneducated, settled in New York City's crowded tenements. What kind of work did the "land of opportunity" offer these new arrivals? Fannie Susskind remembers...

FANNIE SUSSKIND: "We came here with the needle in our hands...I worked since twelve years old...when I came here."

DAVID SCHOUUMACHER: Union newspaper editor, Leon Stein...

LEON STEIN: "So that the history is one of a sequence of newcomers to America who set foot into America and into the sweatshop...almost simultaneously. It was a cesspool of disease...lint and dust in the air...darkness or inadequate lighting...crowded machinery...dirt on the floor...men and women stripped to the waist bending over the pressing boards and over the sewing machines, with children lolling about. And it was a scene out of hell..."

DAVID SCHOUUMACHER: JoAnn Argersinger, Professor of History at the University of Maryland, Baltimore County...

JOANN ARGERSINGER: "The sweatshops that emerged in the late 19th century really came about because of the structure of the industry. There was a chaotic industry that was intensely competitive and there were large numbers of workers, particularly women and immigrants, who were easy prey for many of the employers."

DAVID SCHOUUMACHER: Stiff competition and narrow profit margins gave employers a powerful incentive to get their labor as cheap as possible. The employers had the jobs the immigrants needed and they had millions to choose from. Was there any way these young girls could even the odds? It started with the "shirtwaist"...a kind of blouse whose

nationwide popularity turned the women's garment industry from hand stitching to mass production.

LEON STEIN: "With the advent of the "shirtwaist" you began to get factories...big assemblies of workers, where up until this time workers didn't know each other...they feared each other...(How much is he asking for the work in one department? How much is he asking for the work in another department?) But now they were all on one floor...and because they could talk to each other, even though they were forbidden...they got to know each other. This is the prelude to organization."

DAVID SCHOUMACHER: The International Ladies Garment Workers' Union, the ILG, started in 1900...but it took the immigrants, unsure of themselves and their new country, almost 10 years for dissatisfaction with low wages and bad working conditions to burst into flames.

FANNIE SUSSKIND: "There was no use asking the boss for a raise...He used to laugh at you...you asked for a raise. And piecework, when we used to work, it used to be worse."

DAVID SCHOUMACHER: The year was 1909...

LEON STEIN: "The word had spread, a notice had been issued, that there will be a meeting of all the "shirtwaist" makers in Cooper Union on November 22nd. And at that point a little girl...that's the way it's generally told...a frail youngster, raised her hand and she said..."I want to say something"...and they lifted her up to the platform and she said, "I've heard enough talk...I am one of those." She worked in Diamond Waist Company. She says, "the time has come for us to have a general strike."...And Benjamin Feigenbaum stepped forward against the applause and said, "do you mean it? Do you mean it?" he said. "And if you mean it...raise your right hand and take the ancient Hebrew oath"...And it was out of the Psalms..."may this right hand wither if I betray the cause...may my tongue cleave to the roof of my mouth..."

MUSIC & AUDIO: “Let’s put a stop to the sweatshop! Let’s end the evil of the age. Fight to the finish! We’ll win the war we’re waging for a decent living, wage. Must we sew and sew, solely to survive so some low so and so can thrive? No! He’ll fry in Hades if it’s up to the Ladies Waistmakers Union Local 25. Unfair! Unfair!”

DAVID SCHOUUMACHER: And then, after 3 months of closed factories and picket lines, in midFebruary of 1910...a compromise. The strike was settled. The workers had won 12% to 15% raises, a closed shop, a 52-hour week, and something else...a role in setting their own wages and conditions. How could New York garment manufacturers afford the better wages and conditions the “waistmakers” strike had won?

JOANN ARGERSINGER: “The larger inside shops could, in fact, afford to give larger wage increases because they produced year round. Most of the time they weren’t affected by seasonality. They had more of a standardized relationship with the textile firms that provided them raw materials. All these sorts of factors allowed them to give wage increases. And also, in the larger shops, the wage increases would be immediately reflected in the price increases in the garments.”

DAVID SCHOUUMACHER: The “waistmakers” had made their point...If one worker asked for a raise, she could always be replaced with someone else willing to work for less. But workers bargaining together, and if necessary striking together, could win a share of the fruits of higher prices and higher productivity. The unions had made them strong. We asked economic analyst Richard Gill how the ILG used the supply and demand for labor to get wage raises...

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(MUSIC PLAYS – COMMENT & ANALYSIS I

RICHARD GILL: Certainly one important impact of the unions was on working conditions which were sometimes quite intolerable in those days. Unions, of course, also

had an impact on wages. To analyze their effect, you have to compare wage determination, according to the ordinary laws of supply and demand, with wage determination when unions intervene. Basically, without unions, wages would be determined by the intersection of the business firms' demand curve for that particular kind of labor and the supply curve of such labor. This demand curve reflects two things: consumer demand for the product...garments these firms are producing...and the productivity of the labor employed...roughly, how much each added laborer will contribute to increased garment production. The supply curve reflects the availability of this particular kind of labor and the willingness of workers to supply their labor at various wage rates. Supply and demand are equated at this intersection of the two curves. We get an equilibrium wage, here, and the quantity of labor that will be employed, here. Now in the case of the garment industry at the turn of the century, what you had was an enormous availability of cheap immigrant labor, willing to work at virtually any wage in order to survive. What this meant, technically, is that you had a supply curve of labor that looked like this. At this very low wage, businesses could hire a virtually unlimited amount of labor. Naturally, they had no motive or need to pay higher wages. They would operate here. Now what the ILG did, in effect, was simply to insist that the wage be raised...from here to, say, here. If employers objected, the union was capable of withdrawing virtually the entire labor force from the market...which, of course, is exactly what strikes attempt to do. So the employers decided to settle for this higher wage. The standard of living of the employed garment workers improved, though, of course, at a certain cost. For, other things equal, when wages are raised above the market level, fewer workers will be employed. And, in fact, we can see in our diagram that employment has now fallen from here to here. Few people doubt that the growth of unions had mainly beneficial effects in the early sweatshop days. Even then, however, there were some costs; in later decades, these costs sometimes became substantial.

PART II

DAVID SCHOUMACHER: When early labor leader, Samuel Gompers, was asked what the labor movement wanted...he answered in one word...MORE. And under the

leadership of United Auto Workers Presidents Walter Reuther, Leonard Woodcock and Douglas Fraser, autoworkers' wages kept pace with automakers' prices and profits.

LEONARD WOODCOCK: "I'm never satisfied..."

REPORTER: "You think you could have done better if you had more time?"

LEONARD WOODCOCK: "No, no, no, no...because there's always more to get but there's always the next time."

DAVID SCHOUUMACHER: But Big 6 printers have gotten more from the Herald Tribune and seen their employer go under. A newspaper or an automaker...trying to turn red ink into black...could cut costs by cutting pay. But why would union members, who had always gotten more, take less? As America drove into the '60's, General Motors, Ford and Chrysler, the so called Big Three, dominated the auto shows and the roads. As in many of America's basic industries, lack of competition allowed the Big 3 to keep raising prices. Consumers who wanted to trade up had to pay up. But the '60's brought something new to the highways. At first American drivers and producers couldn't be bothered...30cent gas made gas guzzlers a cheap luxury. But the Energy Crisis of the '70's got the attention of American drivers. Consumers took another look at high mileage imports. They were looking...and buying. Foreign cars hit the auto industry like a cyclone. Chrysler was taking on red ink faster than it could bail it out. MIT auto industry expert, Harley Shaiken...

HARLEY SHAIKEN: "So, when the Oil Embargo hit, they were stuck with lots full of huge Chrysler automobiles that got very poor mileage and were virtually unsellable at any price. They were making large cars when the market wanted small cars, and Iococca, I think, when he first assumed the Chairmanship or the Presidency of Chrysler initially, wasn't fully aware of how dramatic the damage had been. And the early need was to get money into the company..."

DAVID SCHOUMACHER: Where could Lee Ioccoca look for the money to keep Chrysler afloat? Douglas Fraser headed the United Auto Workers...

DOUGLAS FRASER: "It was 1979, and as President of the Union we had already made a settlement in GM and Ford...and Ioccoca asked to meet with me. And I met with him and he says, "After all these years, we no longer can afford in Chrysler to follow the pattern that has been established in Ford and General Motors." And he laid out the economic case...and it's a rather convincing case...so you're talking about the very survival of the corporation and, more important to me...much more important to me...was the survival of the workers."

DAVID SCHOUMACHER: Fighting for survival, union workers agreed to pay cuts...more than \$450 million worth of pay cuts. But Chrysler was almost broke...What could it give the union in return?

DOUGLAS FRASER: "We had to make horrendous concessions and, in those negotiations, we were able to get profit sharing. We were able to get some assurances against additional plant closings. We wanted a voice in all of the decisions that affect the lives of our members and so they proposed to the unions a structure where the union would have a meaningful voice in all levels of management...including the Board of Directors."

DAVID SCHOUMACHER: Chrysler needed more than cost cuts to design and build and market the small stylish cars America wanted. It needed credit. But Chrysler's troubles had cut it off from traditional sources of credit and investment. So, like other borrowers with bad credit, Chrysler chief Ioccoca, asked a relative to guarantee a loan...Uncle Sam. Big business bailouts usually got short shrift from Democratic Congresses and presidents...but the UAW and Democratic leaders were old allies. When UAW chief Fraser talked about the prospect of half a million jobs would be lost in a Chrysler collapse, Capitol Hill listened...and President Jimmy Carter signed Chrysler

loan guarantees into law. By 1984, Chrysler was back in the black and government guaranteed loans were repaid.

DOUGLAS FRASER: "You know, I knew how close we were to bankruptcy, but seeing things work like that, where the government takes a hand and you formulate a constructive strategy...in which all parties have to what I call...with the equality of sacrifice."

DAVID SCHOUMACHER: The UAW and Chrysler were back on opposite sides of the bargaining table when contract time rolled around again. But something had changed. At Chrysler and around the country the late '70's and the '80's saw struggling companies and their workers set aside old antagonisms in the common interest of survival. We asked one of the nation's best-known labor economists, University of Wisconsin Professor, Jack Barbash, were we seeing a passing phase or a basic change?

JACK BARBASH: "I think we're seeing a basic change. The adversarial interest was pushed too far at the expense of this narrow community of interest...and what we're seeing now from a broad, analytical standpoint, is some enlargement of that area of common interest...like profit sharing...like worker involvement...like quality of work...like employee ownership...illustrating the basic principle of cooperative relationships."

DAVID SCHOUMACHER: A business as usual wage increase and price hike could have sunk Chrysler, but government loan guarantees, the UAW's agreement to temporary pay cuts, and Chrysler's willingness to give the union unprecedented access to management's top councils kept Chrysler going. A union which was used to asking for more...and a company which was used to giving it had discovered that staying afloat in a competitive economy could sometimes force two old antagonists to take the same tack. We asked economic analyst Richard Gill what accounts for the recent trend away from confrontation and toward cooperation.

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(MUSIC PLAYS – COMMENT & ANALYSIS I (MUSIC PLAYS – COMMENT & ANALYSIS II appears on screen)

RICHARD GILL: The change is, I think, quite dramatic. The central fact is that union membership as a percentage of the American labor force has been declining for thirty years. The Chrysler case brings out one reason for the growing pressure on unions: The competition of cheaper, and even in some cases more efficient, foreign labor. But there has also been an enormous change in our economy from hardhat industries to service industries. White-collar workers are being organized by unions in many instances, but not on a scale to match the decline of the traditional union strongholds. Things are obviously changing. Besides foreign competition, the Chrysler story also suggests another change: the occurrence of actual cooperation between labor and management from opposite sides of the bargaining table. Does this herald the dawn of a new era in which unions and management place their common interest above their conflicts? Maybe not, but one can dream, can't one?

PART III

DAVID SCHOUMACHER: Walmart is the nation's largest retailer, and one of the most profitable. It is also the largest private employer, with more than 1.4 million workers. Supporters praise Walmart for selling food and other goods at rockbottom prices. Critics attack the company for paying rockbottom wages, and preventing unions from organizing. As Walmart grows... and grows, who benefits...and who gets hurt?

MUSIC

DAVID SCHOUMACHER: Sam Walton was already a successful retailer in 1962 when he opened the first Walmart store in Rogers, Arkansas. His timing was perfect. There was a surplus of farm labor in the region and women lined up for jobs at the area's first superstore. Everyone knew Sam Walton, with his folksy humor and small town manners. And Walton knew the farm women would be ideal employees – unskilled wage

earners grateful for income and unlikely to demand higher wages. And while Sam Walton was running Walmart, he supplemented low wages with other benefits.

PETER VAN DOREN: "Walmart, in return for lower wages, initially gave people the possibility of an equity share in the company, and over time that equity portion has been forgotten."

STEVEN GREENHOUSE: "And a lot of early workers, people who joined Walmart in its early days, actually became millionaires."

DAVID SCHOUUMACHER: So, when Walton died in 1992, was it Wall Street that caused his successors to cut the benefits and just keep the low wages?

STEVEN GREENHOUSE: "Wall Street places lots of pressure on corporations to increase their profits, and they know that one way to increase profits is to push down labor costs."

DAVID SCHOUUMACHER: A low-paid workforce isn't the only strategy Walmart uses to maximize profits, but it's the most controversial. How does the company defend itself?

STEVEN GREENHOUSE: "Now Walmart might argue, "Look we have more than a million workers in the United States who are willing to work at the rates we offer," but if you're making \$10-\$11 an hour and you're only working say 30-35 hours a week, you will probably end up below the poverty line of \$20,000."

DAVID SCHOUUMACHER: Research shows that Walmart's wages are standard for the retail industry, and retail stores are one of the few places where unskilled workers with a high school education can find a job. But why do so many of those workers choose Walmart over its competitors? It seems that benefits other than wages build loyalty in the Walmart workforce.

AUDREY WALKER: “The opportunities at Sam’s Club are endless.”

GWEN GARY: “When I first started as a cake decorator, I never thought I’d end up as a manager today.”

VICTORIA PRATT: “I have a high school diploma and I never thought I’d be able to achieve the level that I am at now, the income that I’m making now, and the opportunities I’ve had.”

DAVID SCHOUMACHER: For many years, unions have tried to organize Walmart’s million-plus workers, promising them better wages and benefits.

WALMART EMPLOYEE: “Walmart made 12 billion in profit last year, but none of that reached us.”

MARY WATKINES: “I put ten years in at Walmart and make \$11.30.”

DAVID SCHOUMACHER: “Walmart has fought hard to stop the workers from organizing. but why haven’t the unions succeeded?”

STEVEN GREENHOUSE: “When the work force was comprised largely in the huge factories with 5,000 to 10,000 workers there was this feeling of solidarity, and it made it easier to unionize places. It’s much harder to unionize 33 workers at a bank, or 22 workers at a Starbucks, or a hair salon, so I think unions face a hard time. By far the main reason the percentage of workers in unions has declined is that companies have gotten much more aggressive in fighting to keep out unions.”

DAVID SCHOUMACHER: So, is that the end of this labor-management story? Almost. There is one maverick in this retail rodeo that deserves mention -- Costco, which competes directly with Walmart’s membership division, Sam’s club. Costco pays its workers well, provides good benefits, and offers low prices. What’s their secret?

STEVEN GREENHOUSE: "Jim Sinegal, the founder and head of Costco, is in ways like Sam Walton. They are both retail geniuses. When he founded Costco he said, 'By paying our workers well, treating them well, they are very productive, they work very hard for us.' "

DAVID SCHOUUMACHER: But does higher productivity generate sufficient profits to pay for higher wages and benefits? Or are there other factors as well?

STEVEN GREENHOUSE: "At most retailers the typical worker leaves after a year and a half or so. At Costco the typical worker leaves after 5 years. You don't have to spend nearly as much money trying to find people, advertising for people, interviewing people, training people."

PETER VAN DOREN: "You don't want all retail to try the same thing, you want someone to innovate, and try a different business model, and then see if it's successful. If Costco is correct, then their case study in the business school is going to win out over Walmart's. ... Let the games begin and let's see how consumers respond to that possibility."

CONSUMER 1: "I shop at Walmart because I like the prices. I like their selection, the quality."

CONSUMER 2: "I have a big family so volume is what I needed, volume discount. And also quality of the product and of the convenience."

CONSUMER 3: "I shop at Walmart because of the prices, they're cheaper than other stores."

CONSUMER 4: "The quantity is big and the prices low."

CONSUMER 5: "Well, economically it's a good place to shop. They have a great variety of things and the price is right."

CONSUMER 6: "I'm the mother of four boys and I need to buy huge quantities in order to feed them."

DAVID SCHOUMACHER: Former Department of Labor secretary Robert Reich said this: "Walmart is doing everything they can to get their costs down. And that looks unfair. It looks awful. We don't like it. ... but the other side of the coin is that Walmart is providing rock bottom prices to consumers - and we as consumers say 'hurray!'"

For now, Walmart seems in little danger of having its competitors adopt the Costco model...which leads us back to our opening question. As Walmart grows and grows, who benefits and who gets hurt? We asked that question of economic analyst Nariman Behravesh.

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BEHRAVESH: So who is hurt and who benefits when unions are kept out of a large company in the retail industry? The power of U.S. labor unions in the private sector has been diminishing in the past few decades. The share of unionized workers in the total workforce has fallen from 20% in 1980 to around 12%. Moreover, the retail industry is one of the few places where unskilled workers can find a job. Unionizing workers with few skills is always tough—mostly because there are so many of them in the world.

Unions often succeed in getting higher wages and better benefits for their members. However, in the fiercely competitive world this can have unintended consequences, as companies have a greater incentive to automate (substitute machines for people) or offshore (substitute cheap foreign labor for expensive U.S. labor).

So keeping unions out of the retail industry can mean that wages and benefits are less generous. On the flip side, employers have less of an incentive to cut their workforce. By far the biggest beneficiaries of low-cost retailers are consumers—especially poor

ones—who, by some estimates, save over \$2,000 a year, on average by shopping at these types of stores.

DAVID SCHOUMACHER: The immigrant garment workers who made the ILG learned and taught the lesson...that workers bargaining collectively with an employer can even the economic odds. But as other union workers found out, bargaining power is like a hammer. Swing it too hard or too wildly and you might very well bring the whole business down around your ears...But use it carefully and you can build or even repair a sound structure on a firm foundation. For this 21st Century Edition of Economics U\$A, I'm David Schoumacher.

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