The Decline of the Middle Class: How and Why it Happened and What to do About It

By

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America's blue-collar workers are legitimately concerned and angry about the stagnation of wages and the hollowing of America's middle class. It has become a major issue in the 2016 campaign for president of the United States. The lost sense of security has caused many blue-collar voters to look to candidates who appear to understand their plight and offer simple solutions that, at first blush, seem to make sense to them.

Given the importance of who is elected to lead our nation for the next four years, it is vitally important, however, to try to better understand the history and dynamics of what has led to America's current economic situation.

There has been a fundamental transformation of the American economy from one where workers were valued and shared fairly in a growing economy gaining access to the middle class to one where most corporations shifted to a philosophy that "maximizes shareholder value" at *the expense of* workers.

Compounding the problem, at the same time corporations adopted a new a new partisan political strategy when they aligned with the increasingly right wing of the Republican Party and created a symbiotic relationship where they would do each other's bidding, i.e., corporations exclusively backing conservative leadership in Congress for supporting the new corporate agenda in return for endorsements and massive campaign contributions solely to GOP conservative candidates.

"The Great Compression"

We cannot understand where we are unless we examine where we have been and how we got to where we are. An economic and political history of the United States since the end of World War II is critical to that understanding.

The economic and political principles America experienced in the three decades following World War II is what is known as "The Great Compression." It was based on the concept of "the virtuous circle of growth." It was a period of unprecedented prosperity: high wages paid to middle-class Americans, job security, family supporting benefits such as health care and pensions and generous profits for business.

Harold Meyerson has noted, "Since 1947, Americans at all points on the economic spectrum had become a little better off with each passing year. The economy's rising tide, as President John F. Kennedy had famously said, was lifting all boats."

The result of strong consumer demand resulted in economic growth. Businesses expanded production and invested in new plants. These actions generated a new round of consumer demand creating "the virtuous circle of growth."

To make the system work, employers viewed their employees as assets to be developed rather than costs to be controlled. In order to succeed, expand and generate good profits, employers needed motivated, high-skilled employees who would be loyal to their company.

Earl Willis, a GE manager of employee benefits, affirmed this philosophy when he noted, "Maximizing employment security is a prime company goal. The employee who can plan his economic future with reasonable certainly is an employer's most productive asset."

Many employers also embraced a philosophy of "stakeholder capitalism," balancing the needs and interests of all the stakeholders in the corporate family. Frank Adams, chairman of Standard Oil of New Jersey put it this way, "The job of

management is to maintain an equitable and working balance among the claims of the various directly affected interest groups…stockholders, employees, customers, and the public at large."

The period was also characterized by what economists call a "mixed economy," essentially a public-private arrangement where markets play the dominant role but government plays a significant role enabling economic growth by supporting public education, public infrastructure, research and regulations that foster fair competition and protection of the public, consumers and workers. Adam Smith wrote when "regulation…is in favor of the workman, it is always just and equitable."

Lynn Stout, the Distinguished Professor of Corporate and Business Law at Cornell Law School, in *The Shareholder Value Myth* (https://corpgov.law.harvard.edu/2012/06/26/the-shareholder-value-myth/) writes, "Fifty years ago, if you had asked the directors or CEO of a large public company what the company's purpose was, you might have been told the corporation had many purposes: to provide equity investors with solid returns, but also to build great products, to provide decent livelihoods for employees, and to contribute to the community and nation. The concept was to focus on long-term performance, not maximizing short-term profits."

This strategy was supported by a strong and growing labor movement. Unions played a central role in creating the world's largest middle class by insuring that economic gains from rising productivity were shared with workers. Collective bargaining assured that workers had a voice in determining how the wealth created by corporations was distributed equitably.

Labor's impact spread beyond its members. The trade union movement fought for and won a minimum wage, pensions, health insurance, eight-hour day, five-day week, safety and health legislation, child labor laws, and more. Legislation affected all workers, not just union members, and the AFL-CIO became known as "The Peoples' Lobby." In addition, many non-union employers were compelled to improve their employees pay and benefits in order to compete.

The result of that philosophy?

From 1947 to 1974, Americans at every level of the economy became a little better off with each passing year. The average hourly wage doubled, keeping pace with growing productivity. Productivity rose by 97 percent while median wages rose by 95 percent.

The poorest fifth experienced income increases of 42 percent while the top fifth had an 8 percent increase.

America became more egalitarian. By 1973, the poverty rate declined to 11.1 percent. It has not been lower since.

Economist Paul Krugman wrote, "The Great Compression succeeded in equalizing incomes for a long period – more than thirty years. And the era of equality was also a time of unprecedented prosperity, which we have never been able to recapture."

Underpinning this economy was a political system where, while advocating for their policies, Republicans and Democrats often worked together in a bipartisan fashion to advance America's interests. From the 1940s to the 1970s, many in the GOP held moderate to liberal views on domestic issues. They typically favored New Deal programs and a social safety net. They were not averse to raising taxes and were strong supporters of spending initiatives such as infrastructure, education and research.

George Romney, the head of American Motors and who was a presidential candidate in 1968, typified the moderate Republican political leader of the time. His philosophy was that prosperity was gained through bargaining and compromise among stakeholders, including workers. He said that "rugged individualism" was "nothing but a political banner to cover up greed." As governor of Michigan, he worked in a bipartisan fashion to raise the minimum wage, increase education spending, supported programs for the unemployed and poor and even signed a law giving teachers collective bargaining rights.

He commented, "Dogmatic ideological parties tend to splinter the political and social fabric of a nation, lead to governmental crises and deadlocks, and stymie the compromises so often necessary to preserve freedom and achieve progress." His son Mitt came to exemplify the kind of world he warned about.

While pro-business, they often supported unions. For example, President Dwight Eisenhower once said, "(Right-to-Work laws) are a virtual conspiracy of the crafty, the ignorant, or the misguided to subvert industrial peace, exploit men's need to work and deluge the community with industrial irresponsibility. 'Right-to-Work' laws do not create jobs; they only victimize the worker and make his organization ineffective."

President Eisenhower also said, "Should any political party attempt to abolish social security, unemployment insurance, and eliminate labor laws and farm programs, you would not hear from that party again in our political history."

Like Abraham Lincoln and Theodore Roosevelt before him, Eisenhower adhered to the classic Republican view of government and set out to use it to guarantee economic opportunity in the postwar world. He cut regulations and price controls for certain businesses. He vetoed laws he thought unfairly favored businessmen. He endorsed an upper income-tax bracket of 91 percent. Under his direction, Congress invested in education and infrastructure: The 1956 Federal-Aid Highway Act remains one of the largest public-works programs in history. He defended the right to economic opportunity for every hard-working American, putting the government's muscle behind desegregation. During Eisenhower's administration, the middle class expanded, and the country thrived.

Theodore Roosevelt called for government to regulate business, prohibit corporate funding of political campaigns, and impose income and inheritance taxes.

Even Richard Nixon supported much of the New Deal philosophy. He signed an expansion of Social Security, created the Environmental Protection Agency, the Consumer Product Safety Commission and the Mine Safety and Health Administration. He supported a guaranteed annual income for the poor and an extremely progressive health care proposal.

"The New Economy"

A very different strategy to transform our economy and political system, known as "The New Economy" appeared. Growing from the seeds of the Barry Goldwater campaign in 1964, a new paradigm emerged that would reverse the principles that fostered "The Great Compression."

In 1971, future Supreme Court Justice Lewis F. Powell, a Richmond, Virginia, lawyer, drafted The Powell Manifesto (http://reclaimdemocracy.org/powell_memo_lewis/), a memorandum for the U.S. Chamber of Commerce calling for a corporate takeover of America's dominant public institutions to advance this transformation agenda through political power.

The Manifesto warned the business community that anti-business sentiment in Washington had reached a dangerous new high, and it was threatening to "fatally weaken or destroy" America's free enterprise system. Business was being victimized by government regulations, consumer activism, and unions.

Powell argued that business needed to recognize that political power must be "assiduously cultivated; and that when necessary, it must be used aggressively and with determination – without embarrassment and without the reluctance which has been so characteristic of American business."

Powell's admonition that political power "must be used aggressively and with determination" was embraced by a new class of conservative family and corporate foundations such as those supported by the Koch brothers, Coors, Wal-Mart, Scaife and others. The corporate-funded American Legislative Exchange Council (ALEC), an organization of corporate lobbyists and state legislators who create "model bills" that are aggressively promoted in state legislatures across the country, was born. While it calls itself "a membership association of state legislators," almost 98 percent of its cash is from corporations, trade associations and corporate foundations.

In what became known as "The Revolt of the Bosses," the document was enthusiastically embraced by the business community led by the U.S. Chamber of Commerce.

As a result, more than 2000 companies established Washington offices from 175 in 1971 to 2,445 a decade later.

A number of business-backed think tanks were created to advocate policies from a business perspective including the Heritage Foundation, American Enterprise Institute, Americans for Tax Reform, Hoover Institution, Manhattan Institute for Policy Studies, Mackinac Center for Policy Studies and Cato Institute among others.

Corporate CEOs established the Business Roundtable to advance their interests with members of Congress.

U.S. Chamber of Commerce membership doubled by 1974 and the National Federation of Independent Business grew from 300 members to 600,000. By 1978, almost 200 trade associations had 50,000 employees including 9,000 lobbyists.

What all these groups united around was new a corporate philosophy that was quickly embraced. The doctrine is that the sole corporate mission is to reverse the "virtuous circle" and "stakeholder capitalism" philosophy - the one that helped create broad prosperity and a growing middle class following World War II.

Milton Friedman, in his 1962 book *Capitalism and Freedom,* rejected as "subversive" the notion that corporations have social responsibilities. "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible."

Gone was the idea that the destinies of labor and management should be linked and they should share roughly equally in economic and productivity gains.

A recent Gallup poll found that a majority of Americans (especially Republicans) blame the government, especially the Obama administration, for the nation's economic problems including income stagnation and growing inequality. Exit polls indicated that that view played a major role in the last election and is being advanced by the GOP in the 2016 election.

The evidence clearly demonstrates that the current state of working Americans is primarily driven by the fundamental shift toward maximizing profits and shareholder value as opposed to maintaining "an equitable and working balance among the claims of the various directly affected interest groups: stockholders, employees, customers, and the public at large" as cited above.

Cornell's Lynn Stout noted, "For most of the 20th century, managers believed public corporations should serve not only their shareholders, but also employees, customers, the nation and future generations. American companies pursued long-term research that would not produce profits for years or even decades. The result was a host of corporate breakthroughs, like the transistor and the desktop computer, that contribute immeasurably to our lives today."

Owen Young, who served as GE's chairman for three decades, stated, "Stockholders are confined to a maximum return equivalent to a risk premium." The remaining profit stays in the enterprise, is paid out in higher wages, or is passed on the customer." Even into the 80s, the Business Roundtable called for "balancing shareholder expectations" against other priorities. They abandoned that principle in the 90s, however, embracing maximizing shareholder value.

Stout adds, "All this changed in the 1980s. Economists began arguing, confidently, if incorrectly, that shareholders 'own' corporations and that stock price always captures a firm's true economic value. Thus shareholders should have more power over corporate boards, and executive pay should be tied to shareholder returns. These academic arguments were embraced by activist investors seeking to buy shares, pump up price, and sell for a quick profit. They also appealed to C.E.O.s hoping to enrich themselves by boosting share price by any means possible (including, at Enron, outright fraud).The result is today's world, where 'shareholder value' is king."

Stephen Roach of Morgan Stanley remarked, "If I were to describe the new role of the '90s, it would really probably start and finish with the power of the financial markets…to really control the destiny, the strategy of the corporation. Shareholders got rewarded beyond their wildest dreams, but there's a cost – through stagnant wages, through downsizing and layoffs, through widening inequalities. Capital wins but at a cost…The 1990s is the ultimate triumph of shareholders around the world, the worker is pretty much a pawn in the process."

For example, in 1981, new GE CEO Jack Welch announced that in the future, GE would shed all its divisions that weren't No. 1 or No. 2 in their markets. If that meant shedding workers, so be it. All that mattered was pushing the

company to pre-eminence, and the measure of a company's pre-eminence was its stock price. In the next five years, he cut the number of GE employees from 411,000 to 299,000 – and the stock soared.

To advance "The New Economy," a new synergy developed between a growing conservative Republican Party and the leaders of the "shareholder value" business leaders and the economists who advanced their ideology.

Led by U.S. Chamber of Commerce president Thomas Donohue, a new partnership emerged with leaders of the Republican Congress. Abandoning its previous aversion to partisan politics, the Chamber adopted a new of policy of extremism and open partisanship making it "an eight-hundred pound gorilla."

Congressman Tom DeLay and his K Street Project pushed a strategy that GOP leaders would only be responsive to "their friends." Abandoning an earlier strategy to work with both Democrats and Republicans, the business community was pressured to adopt Republican positions and hire only Republican personnel, "pay to play." The business community played ball.

Thus, the dynamics were in place that combined corporate and political power to advance an agenda that benefitted both, *at the expense of* everyone else, especially workers.

Donohue built a political machine never before seen in American history.

Not to be outdone, Charles and David Koch, sons of a founding member of the John Birch Society, believed that minimizing government was an absolute imperative. They are believers of the extremist economic philosophy of Ayn Rand.

Starting in the 70s, the Koch brothers, as well as other business leaders and philanthropists, began funding "public policy groups" or think tanks on the right including those cited above. In 2004, they founded Americans for Prosperity (AFP), a nonprofit political advocacy group which is not legally required to disclose its donors to the general public. It was instrumental in building the Tea Party.

AFP helped lead the attack on collective bargaining rights for public employees, supported passage of "right-to-work" laws, opposes climate change legislation, raising the minimum wage, opposition to Obamacare and supported the Supreme Court *Citizens United* case that prohibited the government from restricting independent political expenditures by a nonprofit corporation.

The concentration of economic power meant greater political power and allowed the economic elite to shape the Congressional agenda.

<u>The Consequences</u>

So, what have been the consequences of this new emphasis on maximizing profits and shareholder value for the U.S. economy? What has been the impact the American middle class - and why should America's blue-collar workers care?

<u>Productivity</u>

- For decades following the end of World War II, inflation-adjusted hourly compensation, including employer-provided benefits, for the vast majority of American workers rose in line with increases in economy-wide productivity resulting in an increase in living standards.
- From 1973 to 2011, the productivity of the U.S. workforce rose 80.1 percent, but the wages of the average worker rose only 4.2 percent, and hourly compensation – wages plus benefits – rose only 10 percent. So while productivity was rising close to 3 percent a year, hourly wages of the average worker, adjusted for inflation, were essentially flat, the same as in 2011 as in 1978.
- Since 2000, the gap between productivity and pay has risen even faster. The net productivity growth of 21.6 percent from 2000 to 2014 translated into just a 1.8 percent rise in inflation-adjusted compensation for the median worker (just 8 percent of net productivity growth).
- During the last several decades, income inequality in the United States has increased significantly. The last time inequality was as high as it is now was just before the Great Depression.
- If the hourly pay of typical American workers had kept pace with productivity growth since the 1970s, then there would have been no rise in income inequality during that period.

- If the share of income going to the bottom 90% was the same in 2013 as it was in 1973, median annual household income (adjusted for family size) would be 18%, or about $9,000, higher than it is now.
- Economic evidence indicates that the rising gap between productivity and pay for the vast majority likely has nothing to do with any stagnation in the typical worker's individual productivity. For example, even the lowest-paid American workers have made considerable gains in educational attainment and experience in recent decades, which should have raised their productivity.

Wages & Benefits

- Between 1979 and 2013, the top 1 percent's share of income doubled nationally, increasing from 10 percent to 20.1 percent.
- Since 2000, even as the economy has grown by 18 percent, the median income of households headed by people under 65 has declined by 12.4 percent. Since 2001, employment in low-wage occupations has increased by 8.7 percent while employment in middle-wage occupations has decreased by 7.3 percent.
- For the United States overall, the top 1 percent captured 85.1 percent of total income growth between 2009 and 2013.
- In 2013 the top 1 percent of families nationally made 25.3 times as much as the bottom 99 percent.
- Fully 49% of U.S. aggregate income went to upper-income households in 2014, up from 29% in 1970. The share accruing to middle-income households was 43% in 2014, down substantially from 62% in 1970.
- The disposable incomes of poor families in the US have trailed those of their counterparts in other developed countries for decades. Now the U.S. middle class is also falling behind.
- The living standards of middle-class Americans have fallen behind a dozen countries in Europe. Americans worked longer hours, often for lower pay and benefits, and made up the difference with the higher ratio of two-income households of any advanced economy.
- During the last three decades, middle-income households in most developed countries enjoyed larger increases in disposable income than comparable US households.

Health Insurance

- In 1980, 70 percent of Americans who worked at companies with one hundred or more employees got health insurance coverage *fully paid for* by their employers.
- By the mid 2000s, only 18 percent of workers, one quarter of the percentage in 1980, were getting full health benefits paid by their employers.
- Thirty-seven percent got partial help.
- The remaining 45 percent received no employer support.

Pensions

- In 1980, 84 percent of the workers in companies with more than one hundred employees were in lifetime pension plans financed by their employers.
- By 2006, only 33 percent has company-financed pensions.
- The rest either got nothing or had been switched into funding their own 401(k) plan with a modest employer match. Half of U.S. workers get no retirement plan from their employers.
- Under the 401(k) system today, employees are paying more than half – 51 percent – and the companies, 49 percent, a shift in costs from employers to employees of hundreds of billions of dollars.
- During the market collapse of 2008-09, 401(k) plan holders lost an estimated $2.8 trillion in savings – roughly 30 percent of their assets.

Minimum Wage

- Since the 1960s, the real value of the federal minimum wage has fallen by more than 40 percent.
- The minimum wage put a floor on the lowest American pay scales, but the floor exerts an upward push on average wages for others.

The Wealthy

- The Walton family enjoys wealth equal to all the assets of the entire bottom 40 percent of the U.S. population – 120 million people.

- Paul Krugman: “The paths that many of today’s wealthiest Americans have taken on their road to riches have not bettered most people’s lives. Many have actually hurt most people’s lives. Their riches have come at most **other people’s expense**” (*emphasis added).*
- Ninety-five percent of the gains from economic recovery since 2009 have gone to the top 1 percent. More than 60 percent of the gains went to the top 0.1 percent, people with annual incomes of more than $1.9 million.
- In 2012, the top 40 hedge fund managers and traders were paid a combined $16.7 billion, equal to the wages of 400,000 typical workers.

CEO Compensation

Executive compensation schemes tied to increased “shareholder value” replaced traditional pay packages. Today, CEO incomes are on average 295 times that of a typical worker, as opposed to 30 times in the past.

As Harold Meyerson points out, “As Occidental College politics professor Peter Dreier has documented, a number of CEOs sit on JPMorgan’s board. They include Stephen Burke of NBCUniversal, who was paid $23.6 million in 2011; William Weldon, retired chief executive of Johnson & Johnson, paid $26.8 million in 2011; and Lee Raymond, retired chief executive of ExxonMobil, whose exit package came to at least $398 million. When CEOs are heavily represented on other CEOs’ boards, voting one another stratospheric pay packages can be the order of the day.

According to a 2014 study, *Performance for pay? The relation between CEO incentive compensation and future stock price performance (*http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1572085*),* authors Michael J. Cooper, Huseyin Gulen and P. Raghavendra Rau write, “We find evidence that Chief Executive Officer (CEO) pay is negatively related to future stock returns for periods up to three years after sorting on pay. For example, firms that pay their CEOs in the top ten percent of excess pay earn negative abnormal returns over the next three years of approximately -8%. The effect is stronger for CEOs who receive higher incentive pay relative to their peers and stronger for CEOs with greater tenure. Our results appear to be driven by high pay related CEO overconfidence that leads to shareholder wealth losses from activities such as overinvestment and value-destroying mergers and acquisitions.”

Worker Power

Gaining the right to organize and bargain collectively by the 1935 National Labor Relations Act (Wagner Act), unions in the immediate post World War II era represented more than a third of all American workers in the private sector. Under the law, employers had to bargain in good faith and unions demanded and received a fair slice of the American pie. Non-union companies often increased their pay and benefits in response. This was a major factor in raising wages and benefits of all workers and creating the largest middle class in the world.

According to the Broadbent Institute, “Economic research shows that unionized workers typically receive higher wages than otherwise comparable non-union workers. This ’union advantage’ is greatest for people who would otherwise be lower-paid workers. This group notably includes workers with less formal education and skills, younger and less experienced workers, and women and workers of color whose experience discrimination in the job market.” This happens to be the target group of the Trump campaign that argues that “wages are too high.”

Unions raise wages of unionized workers by roughly 20% and raise compensation, including both wages and benefits, by about 28%.

In addition, union workers are more likely to enjoy better benefits compared to non-union employees. That includes health, retirement accounts, and paid sick leave. According to the U.S. Department of Labor, 77 percent of union workers get pensions (guaranteed continued payments) after they retire from the job, compared to only 20 percent of non-union workers.

Ninety-two percent of union workers are more likely to have job-related health coverage versus 60 percent on non-union workers.

In addition to collective bargaining, a key role for the American labor movement has been as an important organizational counterweight to the political power of corporations and the right wing. It is the only major institution that is focused on middle- and working -class concerns and advocates for those concerns in Congress and state legislatures

across the country. The labor movement is the one institution that stands in the way of total and exclusive ownership and control of the U.S. economy and political system.

Because of the increased cost to employers, their exclusive focus on "shareholder value" led to a strategy to weaken unions.

Ever since Ronald Reagan broke the air traffic controllers union in 1981, many corporations and their right-wing allies have carried out a vicious, no-holds-barred, ongoing war against organized labor.

Cornell professor Kate Bronfenbrenner in "No Holds barred – The Intensification of Employer Opposition to Organizing" (http://www.epi.org/publication/bp235/) has documented their strategy and tactics in her extensive research.

- Mandatory captive-audience meetings, in which workers are forced to sit through one-sided, anti-union presentations.
- Repeated closed-door, one-on-one meetings with supervisors, during which workers are interrogated about their views of unions and pro-union workers are advised to change their minds.
- Employer assistance to anti-union workplace committees.
- Widespread threats that the workplace will close or move should the workers vote to form a union; and
- Illegal discharge of workers who support a union.

A recent poll found that a majority of nonunionized workers have an increasing desire to be unionized and well more than half of the American population has a positive view of unions. And, Canada, for example, has experienced little decline in union membership despite its similarity with the U.S. This is true for virtually every other industrial democracy. The bottom line – the aggressive attack on labor is unique to the United States.

Over the past few years, state legislators across the country have launched an unprecedented series of initiatives aimed at lowering labor standards, weakening unions, and eroding workplace protections for both union and non-union workers. This policy agenda undercuts the ability of low- and middle-wage workers, both union and non-union, to earn a decent wage.

The pattern of which states adopted which laws suggests that legislation was driven by politics rather than economics. For a comprehensive analysis, see *The Legislative Attack on American Wages and Labor Standards, 2011–2012* by Gordon Lafer (http://www.epi.org/publication/attack-on-american-labor-standards/).

The attacks on labor and employment standards have been driven by a powerful coalition of anti-union ideologues, Republican operatives, and corporate lobbies. It is no accident that the hardest-fought anti-union campaigns have been waged in so-called battleground states. If Republicans cut off union funds and campaign volunteers in toss-up states such as Michigan, Indiana, Pennsylvania, and Ohio, they could conceivably alter the outcome of the presidential election.

The changes undermine the wages, working conditions, legal protections, or bargaining power of workers. The consequence of this legislative agenda is to undermine the ability of workers to earn middle-class wages and to enhance the power of employers in the labor market. These changes do not just happen. They are the results of an intentional and persistent political campaign by business groups and their allies.

In 2011–2012, legislation was introduced in 20 states to restrict employees' ability to contribute dues money to union-backed political activity. Such laws have little to do with protecting workers' freedom to decide what political causes their dues money supports. Both federal and state laws already guarantee that no employee can be forced to contribute dues for political causes one opposes.

A majority of laws prohibiting workers contributing dues for political activity were advanced in "right-to-work" states—meaning that all dues paid in these states are already, by definition, strictly voluntary. In multiple states, legislators passed laws banning even those workers who voluntarily choose to contribute to union political activities from doing so at work, even when states have deemed the practice to be costless to the state. The assault on unions is not part of an agenda to lift the living standards and political power of non-union workers; rather, it is part of a coherent agenda to do just the opposite, weaken labor's political influence.

This agenda was unmasked when Wisconsin State Senate Majority Leader Scott Fitzgerald explained that "this battle" is about eliminating unions so that "the money is not there" for the labor movement.

The Michigan director of Americans for Prosperity, chaired nationally by David Koch, said, "We fight these battles on taxes and regulations but really what we would like to see is to take the unions out at the knees so they don't have the resources to fight these battles."

So the relatively recent skewing of the American economy is not the "free market" working its "magic," but a well-orchestrated and implemented strategy of American business, conservative foundations and their backers, and a significant portion of the modern Republican Party to fundamentally alter the US economic and political landscape to reward capital **at the expense of** labor resulting in ever increasing income inequality and the denial of the American Dream to millions of American families. The primary victims are blue-collar workers.

The Obama Record

Since its inception, the Obama administration has fought to reverse this movement against aggressive opposition from Republican in Congress who, according to Senate Majority Leader Mitch McConnell, noted that their "top political priority" was to oppose Obama and deny him a second term. The Republican controlled Congress refused to support any Obama initiative – even if they agreed with him.

Despite that opposition, the economic record is an impressive one.

- 75 months of economic expansion, better than the recovery under Ronald Reagan.
- The longest period of private sector job creation in American history, 72 straight months. Our economy has gone from losing 750,000 jobs per month to adding 250,000 jobs per month.
- Unemployment dropped from 10.1 percent in October 2009 to 4.9 percent in June, 2016
- Since the Great Recession ended, twelve million new jobs have been created.
- The stock market continues to set new highs reaching 1800.
- The Federal budget deficit has been reduced by two-thirds since 2009.
- Government spending has increased only 3.3 percent, the lowest since Eisenhower was president.
- For 95 percent of American taxpayers, income taxes are as low as or lower than they were at any point in the last 50 years.
- At least 18 million more Americans now have health insurance than before.

However, despite this overall success, income growth has been stagnant except for a recent modest upturn. Because of the persistence of the embrace of maximizing shareholder value strategy by the vast majority of American businesses, income and wealth inequality still prevails. Employers are the ones responsible for income inequality. New incentives are needed to require them to share their profits with those responsible for creating them – the people who do the work.

International Comparisons

A number of pundits have argued that globalization, trade, new technologies and education gaps are primarily responsible for the wage and income disparity in America. If that were the case, we would find the same pattern in other industrialized economies. The real culprit is what government has done to enhance the rich and failure to improve the status of the middle class. As Jacob S. Hacker and Paul Pierson note in their book *Winner Take-All-Politics: How Washington Made the Rich Richer – And Turned Its Back on the Middle Class,* big business and conservative ideologues have joined together to manipulate the tax system, oppose minimum wage increases, influence rules for the financial markets, undercut regulations and weaken labor.

Germany offers an interesting comparison. Germany, as well as most Western European democracies, embraces the concept of "social partners," meaning that they see business, labor and government as "partners" in efforts to build an economy that works for their country and all of its stakeholders, including workers. Under a policy known as *codetermination,* workers have an equal number of representatives on corporate boards such as Siemens, Daimler, BASF and others. German managers view workers having an important role in insuring the company is successful. German unions represent nearly three times the percentage of workers than is found in the U.S. While German companies do have factories in other countries, they keep their best production jobs at home. Germany runs a trade surplus only second to China whereas the United States has the world's largest trade deficit. German industrial workers' wages and benefits are about one-third higher than in the U.S.

Alcoa CEO Klaus Kleinfeld notes that the key to Germany's success is "The social contract, the willingness of business, labor, and political leaders to put aside some of their differences and make agreements in the national interest."

German companies are not driven by maximizing shareholder value but by generating investment internally or from banks.

Given the same global competitive environment, Germany has been able to compete without diminishing the wages and benefits if its workers.

A New Vision for the American Middle Class

There are a number of organizations who have proposed a new way forward including the Center for American Progress, the Economic Policy Institute and others. It is impossible to summarize them all but I would recommend reading the Roosevelt Institute's *Rewriting the Rules of the American Economy* (http://rooseveltinstitute.org/rewriting-rules-report/) as a comprehensive and thoughtful blueprint. "The conclusion is clear," they argue, "piecemeal change will not do it. To improve economic performance and create a shared prosperity, we must rewrite the rules for our economy."

The study states, "Inequality in not inevitable: it is a choice we make with the rules we create to structure our economy. Over the last 35 years, America's policy choices have been grounded in false assumptions, and the result is a weakened economy in which most Americans struggle to achieve or maintain a middle-class lifestyle while a small percentage enjoy an increasingly large share of the nation's wealth. Though these lived experiences and personal challenges are important, they are only the tip of the iceberg that is the crisis of slow income growth and rising inequality. To fully understand the scope of the problem, we must also examine the array of laws and policies that lie beneath the surface – the rules that determine the balance of power between public and private employers and workers, innovation and shared growth, and all the other interests that make up the modern economy."

An executive summary of the study is below:

Fix the Financial Sector

- End "too big to fail" by imposing additional capital surcharges on systemically risky financial institutions and breaking up firms for which credible plans to liquidate a failed institution are not possible.
- Better regulate the shadow banking sector.
- Bring greater transparency to all financial markets by requiring all alternative asset managers to publicly disclose holdings, returns, and fee structures.
- Reduce credit and debit card fees through improved regulation of card providers and enhanced competition.
- Enforce existing rules with stricter penalties for companies and corporate officials that break the law.
- Reform Federal Reserve governance to reduce conflicts of interest and institute more open and accountable elections.

Incentivize Long-Term Business Growth

- Restructure CEO pay by closing the performance pay tax loophole and increasing transparency on the size of compensation packages relative to performance and median worker pay and on the dilution as a result of grants of stock options.
- Enact a financial transaction tax to reduce short term trading and encourage more productive long term investment.
- Empower long-term stakeholders through the tax code, the use of so-called "loyalty shares," and greater accountability for managers of retirement funds.

Make Markets Competitive

- Restore balance to intellectual property rights to encourage innovation and entrepreneurship. u Restore balance to global trade agreements by ensuring investor protections are not prioritized above protections on the environment and labor, and increasing transparency in the negotiation process.
- Control health care cost by allowing government bargaining over drug prices.
- Expand a variant of chapter 11 bankruptcy to homeowners and student borrowers.

Rebalance the Tax and Transfer System

- Raise the top marginal rate by converting all reductions to tax credits and limiting the use of credit
- Raise taxes on capital gains and dividends.
- Encourage U.S. investment by taxing corporations on global income and removing tax biases privileging offshore investment.
- Tax undesirable behavior such as short-term trading or polluting and eliminate corporate welfare and other tax expenditures that foster inefficiency and inequality.

Make Full Employment the Goal

- Reform monetary policy to give higher priority to full employment.
- Reinvigorate public investment to lay the foundation for long-term economic performance and job growth.
- Invest in large-scale infrastructure renovation with a 10-year campaign to make the U.S. a world infrastructure innovation, manufacturing, and jobs leader.
- Expand public transportation to promote equal access to jobs and opportunity.

Empower Workers

- Strengthen workers' right to bargain by easing legal pro-worker stipulations to its contracts and development subsidies. Increase funding for enforcement and raise penalties for violating labor standards.
- Raise the barriers to unionization, imposing stricter penalties on illegal anti-union intimidation attaching strong nationwide tactics, and amending laws to reflect the changing workplace.
- Have government set the standards by minimum wage and increase the salary threshold for overtime pay.

Expand Access to Labor Markets and Opportunities for Advancement

- Reform the criminal justice system to reduce incarceration rates and related financial burdens for the poor.
- Reform immigration law to provide a pathway to citizenship for undocumented workers. U Legislate universal paid sick and family leave.
- Subsidize child care to benefit children and improve women's workforce participation.
- Promote pay equity and eliminate legal obstacles that prevent employees from sharing salary information.
- Protect women's access to reproductive health services.

Expand Economic Security and Opportunity

- Invest in young children through child benefits, early education, and universal pre-K.
- Increase access to higher education by reforming tuition financing, restoring protections to student loans, and adopting universal income-based repayment.
- Make health care affordable and universal by opening Medicare to all.
- Expand access to banking services through a postal savings bank.
- Create a public option for the supply of mortgages.
- Expand Social Security with a supplemental public investment program modeled on private Individual Retirement Accounts, and raise the payroll cap to increase revenue.

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