COMMISSIONER BECKER: Thank you very much.

It was very informative and very good, and I anticipate some good questions from the Commissioners.

First, I'd like to call on Commissioner Rumsfeld.

COMMISSIONER RUMSFELD: Well, I just have a question for Dr. Bronfenbrenner.

DR. BRONFENBRENNER: Very good.

COMMISSIONER RUMSFELD: With a name like Rumsfeld, I've got to be careful.

(Laughter.)

You talked a good deal about your research, and at one point -- I don't have a copy of your statement; I have your study but not your statement -- you said something like this: Employers don't make wage increases when the company's doing well, but rather when organized workers negotiate increases, or something to that effect.

I'm surprised there's research that suggests that. Now, that may sound naive, but my experience has been quite the contrary. My experience has been that a company of necessity must attract and retain the employees it needs, and it does that by managing the total compensation packages to enable that company to have those capabilities that it must have to compete effectively. And as long as they can do that at a profit, they'll do it where they're doing it, and when they can't do it at a profit, their investors force them to stop doing it where they're doing it, and either not do it at all or do it where they can do it competitively. Does that sound inconsistent with what you said?

DR. BRONFENBRENNER: I think -- I'm sorry -- It's interesting, it certainly is what we understood historically was supposed to happen.

COMMISSIONER RUMSFELD: What I said?

DR. BRONFENBRENNER: When businesses were doing well, in order to retain their employees, they would have to pay their employees well. That's what so aberrant about the last ten years. Where we've had an economic expansion, corporations have been doing very well, but wages have stagnated. And what's happened is that employers have not felt the pressure to increase wages, because their workers are so insecure that workers haven't felt safe to ask for them or to leave to go other employers when the wages don't go up, because workers are afraid that they will lose a job and be out there and not be able to find a job of comparable pay.

So that it's the insecurity that's been created, in part, because of trade deficits and trade policies that has allowed employers to not share their wealth the way they did before. So, we are at a time where you have CEO salaries are now 400 times what the average worker salaries are and at a time of economic expansion.

COMMISSIONER RUMSFELD: If I may, let me go back, I quoted what you said, and you just said it again. I said something different. I didn't say they did -- that they increased wages or compensation packages when the company was doing well. I said they did it when they needed to do it to attract and retain the people they needed to function effectively and to create a return. Therefore, if you look at when companies are doing well and say, "They didn't raise wages," that's really a non sequitur from what I said.

DR. BRONFENBRENNER: What I was trying to say is that employers are able to retain people without giving wage increases, because workers are afraid to go to other work places.

COMMISSIONER RUMSFELD: That's the key thing, as opposed to attracting and retaining them, that because of the world market, enables them to do it at those wage rates, which I think is slightly different from what you're saying.

DR. BRONFENBRENNER: What we're saying is that normally, as the economy is improving, workers would feel more courageous to go to their employer and ask for a wage increase, and in order to retain them, the employer would have to give them a wage increase. But, now, workers are more fearful, so they aren't asking for the wage increases, so employers don't feel the pressures to give wage increases to retain their employees.

COMMISSIONER RUMSFELD: It's the globalization that creates those uncertainties.

DR. BRONFENBRENNER: That's right.

COMMISSIONER LEWIS: Now, what was the dichotomy that you mentioned, Don, what she said as opposed to what she said?

COMMISSIONER RUMSFELD: Well, the way she phrases it -- obviously, if you had been brave and willing to tackle her name, you would not have said she.

(Laughter.)

COMMISSIONER BECKER: Why don't you just say Professor?

COMMISSIONER RUMSFELD: Yes, well, the way she phrases it is employers don't make wage increases when the company is doing well. They make them only when they're negotiated by organized workers. And the way I said it was that they make wage increases at that point when they need to attract and retain the employees they need to function.

COMMISSIONER LEWIS: And she's saying they don't need to.

COMMISSIONER RUMSFELD: And she is saying in answer to my comment that because of the globalization, to a certain extent, and therefore, the uncertainty on the part of workers, apparently corporations do not need to notwithstanding the fact that they're doing better. Is that fair?

DR. BRONFENBRENNER: Yes.

COMMISSIONER LEWIS: Is this a recent trend? Is this something that has happened recently?

DR. BRONFENBRENNER: I think what's recent is the rising insecurity. So, it's -- what's recent is this strange dichotomy between a booming economy and workers being economically insecure.

COMMISSIONER LEWIS: Would you put a time frame on recent?

DR. BRONFENBRENNER: Basically, in the last decade, yes.

COMMISSIONER LEWIS: Thank you.

CHAIRMAN WEIDENBAUM: If you substituted compensation for wages, would you get different results?

DR. BRONFENBRENNER: No, it's true of both wages and benefits, economic benefits.

COMMISSIONER BECKER: And do you factor in the open borders, so to speak, in the NAFTA? When you talk about the last decade, is this the period you’re talking about, this global economy?

DR. BRONFENBRENNER: Yes. What we're really talking about is the post -- post-NAFTA environment, there was a dramatic increase in this insecurity, and what we see is a dramatic increase in the use of plant closing threats to promote and fuel the insecurity.

COMMISSIONER LEWIS: What was the geographic area you looked at?

DR. BRONFENBRENNER: The entire United States. It was the largest ever study of union organized -- largest sample ever, 525 NLRB campaigns, between 1993 and 1995.

COMMISSIONER LEWIS: And you said 50 percent or 50 used the threat of --

DR. BRONFENBRENNER: Fifty percent threatened to close, and 62 percent of mobile industries, those that actually could move, threatened to close.

COMMISSIONER RUMSFELD: And you looked at only union organized plants?

DR. BRONFENBRENNER: I was looking at campaigns that were involved in organizing campaigns so that both those that went to an election and those where the petition was withdrawn.

COMMISSIONER RUMSFELD: But you didn't look at companies where there was no organizing effort.

DR. BRONFENBRENNER: I was asked to specifically look at the use of plant closing threats and plant closings during organizing and first contract campaigns. I was asked to do that by the NAFTA Secretariat.

COMMISSIONER LEWIS: And you looked at this both pre and after NAFTA or it was all after NAFTA?

DR. BRONFENBRENNER: I had done earlier research in the 1980's before NAFTA, and then I did this research after NAFTA.

COMMISSIONER LEWIS: And your conclusion is that NAFTA had a dramatic impact.

DR. BRONFENBRENNER: Very dramatic impact, even more than those who thought it had an impact. The amount of threats nearly doubled, and the actual plant closings tripled. So, it's very significant.

MR. PAPADIMITRIOU: But surely you'll remember that the former Secretary of Labor, Robert Reich, did indicate that, despite the growth of the economy and the creation of all these jobs, we still have an anxious society, which was before NAFTA. So, the insecurity perhaps may have worsened and it may have affected more of the union plants, but, it was not only a characteristic of the union plant, but also it was a general condition of the anxious society which then we saw resurge.

DR. BRONFENBRENNER: I would agree that we've had an anxious society. What I'd say is that that anxiety has increased exponentially among workers and communities, not just union communities, but all communities, because not only do we have this threat of plant closures but the news stories of these plant closures have created a ripple effect that has exacerbated the impact. And, so that when he said that before NAFTA, it has only dramatically increased since then, and it affects all workers, union and non-union.

COMMISSIONER BECKER: In this research that you've done, does any of that spill over into organized plants for regular contract negotiations? Is there a correlation in there at all?

DR. BRONFENBRENNER: First of all, I studied both organizing campaigns and first contract bargaining, and what we found in bargaining is employers would use the threat of plant closures to basically push down union demands. Union workers knew that the only way they would get a settlement is if they lowered their demands or they would never get a settlement; the plant would close. The employer used that threat, and these were both wage demands and benefit demands.

And, although I haven't done, no one has done, the same kind of comprehensive national research in terms of future bargaining, we have done case studies, and we found the use of threats of moving work, either all of the plant or part of the plant, overseas is being used in bargaining campaigns and continual bargaining just as much as new bargaining.

COMMISSIONER LEWIS: These were all in industries that could move.

DR. BRONFENBRENNER: I studied both industries that could and those that couldn't move, and what was interesting is that even in industries that couldn't move, such as hospitals and hotels -- I mean, you can't move grandma to Mexico, technically -- but employers would use the threat, "You know, in the global economy, we may have to move," and workers would believe the threat even though the threat had no real basis.

COMMISSIONER BECKER: Let's take a break at this point and shift the questioning from Commissioner Weidenbaum to Stephen.

CHAIRMAN WEIDENBAUM: I'd like to ask Mr. Herzenberg a question. It's a variation of what we've just been discussing.

I wrote down -- as I was listening to your oral statement, I wrote down the following: sounds like we ought to adopt western Europe's approach of high wages, generous benefits, great confidence that you'll keep your job. And I wrote down a little note from that -- this is me, not you -- the only problem is that there is no net new job creation in western Europe, and then I looked at the last decade in the U.S.A., and I see 20 million net new jobs created in the U.S.A. Is there some kind of tradeoff here between security, insecurity, high wages, generous benefits, and job creation? The data is striking -- zero versus 20 million is quite an awesome difference.

MR. HERZENBERG: I think what you're asking now is a macroeconomic question, and a lot of my discussion that I put forward about the auto industry addressed a microeconomic question. But let me start by directly addressing your question and then suggest why I don't think it operates at the level my paper was aiming.

When I look at the U.S. and Europe, in terms of public policy, wage trends, and unemployment, I see only two points of data. And, so, to be frank, I've always thought that the argument that those are the only two possibilities and that if you don't like the growth of income inequality and wage stagnation in the U.S., your only other choice is to have lots of unemployment -- is silly. We need more creative public policy. It is perhaps true that the combinations of public policy that we've had in the U.S. and Europe that grew out of the post-World War II period aren't equal to the set of circumstances that both continents now face. But I am a strong believer in the idea that if we're sufficiently creative about updating our social policy, in fact we can have better income distribution, higher wages, and low unemployment.

In a book that I wrote with a couple of other folks last year called <u>New Rules for a New Economy</u> we tried in part of the last chapter to describe a combination of social policies that would achieve both low unemployment and high wages. So, I won't elaborate on that issue here.

When it comes to microeconomic competition in the auto industry, I guess I don't think we face a choice. I mean, it's clear if you look at the data that there are some very good companies in the auto parts industry. And, unfortunately, they face a fairly inhospitable environment. They face public policies that don't help them. As a result of that, over time, in part because they are undercut by much lower wage firms at home and sometimes overseas, what you're finding is that the firms that have the capacity to improve productivity -- productivity growth being the basis of higher living standards -- shrink. And that is really a central public policy question, a central issue for this panel.

A lot of trade debates are dominated by neoclassical economics, but neoclassical economics is primarily about allocative efficiency and doesn't have much to say about the growth of living standards over time. So that I think we just have to look much more closely, as I tried to in the case of the auto industry, at the nature of competition -- what it is that drives performance improvement? Then we must shape trade policy and domestic policy in a way that allows us to get higher living standards.

CHAIRMAN WEIDENBAUM: But when you look at the question from the viewpoint of job creation, i.e., the employer, wouldn't you expect some striking high positive correlation between the ability to alter your workforce and your willingness to hire on a large scale versus great concern that once you hire someone you're stuck, so you'd be damn reluctant to hire, which seems to be the difference between the U.S. experience and the European experience? All I've heard on this panel is doom and gloom, and 20 million net new jobs, that's a remarkable achievement. Doesn't that energize you at all?

MR. HERZENBERG: Well, again, given the quality of those jobs, no, it doesn't very much. Again, if you did a whole series of things to raise wages, if you had a set of industrial policies to support more productive small firms, if you had a much higher minimum wage, if you made it easier to organize unions and service industries so you could achieve living wages in a lot of service jobs, I think you could do a lot of things like that and you wouldn't necessarily get the kind of unemployment that Europe gets. So, I don't know quite what to say except to disagree with the notion that we are stuck with having to choose only one of those two points.

CHAIRMAN WEIDENBAUM: Well, I just thought it would be useful to introduce the notion that there's a positive side to the status quo, and the American job miracle is that positive side that was neglected in our discussions.

MR. HERZENBERG: Low unemployment is a good thing.

COMMISSIONER BECKER: Let me make a point on something here. I think it would be safe to say that the perception of American workers today is that the NAFTA and the trade laws are being used as weapons against the workers to force them to resist the natural inclination to share great earned wealth that they helped create -- that this is being used as a weapon against them -- the threat of moving their jobs out of the country. Is that a safe statement? I'm not trying to lead you, but what does your research show? This is a perception of my peers that I deal with. Could you make a comment on that at all?

This question is to all four of you, for whoever wants to speak on it to whatever degree.

MR. HERZENBERG: The one piece of data that I'll offer is if you look at the different parts of the auto parts industry, you definitely find a strong relationship between getting imports, particularly from Mexico, and declining wages. So, the --

COMMISSIONER BECKER: But if workers are told that "If you insist on having a wage increase, even though the company has made record profits and you haven't had a wage increase in six or eight years, and you're working more and more hours just in order to be able to stay even, then we're going to shut down all or part of the plant and move it to Mexico." How do you interpret that, and what conclusion would you have?

DR. BRONFENBRENNER: You know, I go back to the quote from Alan Greenspan. The Federal Reserve Board Chairman agrees that insecurity, economic insecurity, has made for wage restraints, and that -- so he believes it's a good thing. But in fact -

COMMISSIONER LEWIS: Except among the CEOs.

DR. BRONFENBRENNER: Except among the CEOs, right. Well, they don't have economic insecurity.

And what we see is that the trade policy, NAFTA and other trading agreements, have been used as a very effective weapon, so effective that the American people really believe that their jobs are at risk even in sectors where they aren't at risk, and that in fact people have been -- and they're afraid not just of their work moving to Mexico, but they're afraid that their good jobs with good benefits are going to turn into jobs -- some of those 20 million jobs.

You know, when you look at where the job growth has been, the job growth is in cashiers and home health aids, in physical therapy aids, in janitors. They're afraid that their good jobs that were in export markets with high pay, good benefits are going to go into low wage, low skill, insecure jobs with no benefits. So, the fear that's been created by these trade deficits is one which is -- it not only interferes with wage increases but with the power to move to a different job.

COMMISSIONER LEWIS: Murray Weidenbaum talked about the creation of 20 million new jobs over the last six years. Have studies been done as to what these jobs are?

DR. BRONFENBRENNER: The Bureau of Labor Statistics puts out the list of where the job growth is, and the jobs I listed to you -- and I would actually turn it over to my economist colleagues more -- but that in fact if you look at the sheer numbers, not percentage increase because percentage increase depends on what the base is, but if you look at sheer numbers, you look at this incredible boom in home health aides, cashiers, and in physical therapy aides, all but some of the lowest paid jobs in our economy.

MR. HERZENBERG: I mean, there has been a big increase in the number of professional and technical jobs at the top of the labor market. At the same time, there's a big increase --

COMMISSIONER LEWIS: For the Microsofts and the Intels and so on.

MR. HERZENBERG: That's part of it, but the doctors and the lawyers and all kinds of technicians in health care, for example, as well as in computer programming and --

DR. BRONFENBRENNER: But those are percentages more than actual millions of people.

MR. HERZENBERG: But if you look at all of the different professional and technical occupations, we did a very crude look at what we call high-skilled jobs from the late '70s to the mid-'90s, and they actually go up as a share of the total to 40 percent. But, as Kate is saying, part of the problem is the simultaneous growth of a lot of very low wage, labor-intensive jobs as in elder care, childcare, janitorial work. So, those two things together --

DR. BRONFENBRENNER: And if I'm a laid off steel worker, I know I'm not going to get to become a lawyer or a doctor.

COMMISSIONER LEWIS: Can you please answer a couple of questions, and then I'd like to ask a question to all of you.

Can you please tell us what stops all the automobile manufacturers in the United States from shutting down and opening in Mexico? That's number one.

COMMISSIONER BECKER: Who are you directing this to, Stephen?

COMMISSIONER LEWIS: To Stephen, yes; that's number one.

COMMISSIONER BECKER: I'd like to bring our other panelists into this, if I could.

COMMISSIONER LEWIS: Number two is, the word "manufacturing" has been used. Could you define what you mean when you've used the word "manufacturing," because that's a discussion we've had among ourselves?

And, finally, number three: As you look at world trade and foreign trade in the United States, could you identify who you think the winners and losers have been? I would like each of you to answer that last one.

MR. HERZENBERG: Let me answer the first one and then let other people go while I think about the answer to the third one.

COMMISSIONER BECKER: We're just about to run out of time so you better make it short.

MR. HERZENBERG: In the auto industry, obviously there's a lot of fixed capital equipment that's tied to this country. It is also true that Mexico, at the moment, doesn't have the complete spectrum of auto production. It has some very capital intensive assembly and engine plants which are world class and that the big three have put there, and it has a lot of relatively labor intensive maquillas. They don't have all of the first-tier suppliers and second-tier suppliers.

So, if you're going to do an integrated network of auto production with just-in-time practices and things like that, it's not clear that Mexico has the capacity or entirely the infrastructure to support that. It can support some of that. That's why there's been a gradual shift over time, but that's one reason that there hasn't been a wholesale and complete shift.

Another thing is collective bargaining and the kind of employment security agreements the UAW negotiates. That acts as a break on the shrinkage of employment in U.S. facilities of the big three, whether that shrinkage is a result of going to Mexico or going to parts companies.

COMMISSIONER BECKER: We're running ten minutes over. We're just going to have a few more minutes.

MS. LEANA: Just a couple of thoughts. One on that is the Sloan Foundation has been funding studies on productivity in the auto try for 15 or 20 years, and I think these are very good studies. And one of the findings of those studies is that you don't see this concentration of productivity in particular geographic sectors necessarily. And one of the other findings is that there is a bundling of practices, of employment practices, things like the use of teamwork, things like how compensation is structured, et cetera, that is associated what they call high performance, high involvement work, that's associated with higher productivity. So, I don't think just being the low cost or the low cost labor area is a ticket to success. I don't think there's any data that would suggest that. So, the answer to the question, why don't they just all move to Mexico.

The other question -- just back to the issue that was raised earlier -- it seems to me when I listen to the economists on our panel that there's a tradeoff that's being made in Europe and the United States, if we look at those two models. In the United States, you're right, we do have a lot of job growth. It looks like it's bifurcated job growth, however, and what you see is much more income inequality than you see in Europe. We seem to have a much higher tolerance for income inequality than we do for unemployment. Perhaps the reverse is true in France. So, in some ways it's picking what you think is the worst evil.

COMMISSIONER BECKER: I want to make one observation here on something, just for the record. When we talk about comparative advantage -- and I hear this word come up every so often -- I relate this to competition; I relate this to assets that one would have over the other. Normally we think of these as productivity, goods, unique design or something that you're bringing to the workplace that would give this company competitive advantage over another company.

I have a hard time relating this to cheap wages, exploitation of the workers or the environment, prison labor or child labor or any of the other things in other countries that are very offensive to us. As a trade unionist and as an internationalist, I have a hard time equating comparative advantage of one country over another at the expense of human beings. And I don't think we should give that kind of advantage in the United States based on that kind of comparative advantage. Just an observation.

MS. LEANA: Could I say, too, that I think the experience is that that kind of advantage is not long-lasting; that you -- I think somebody this morning talked about a plant that moved from the United States to Mexico then over to China, because there's always someplace where people are even more miserable than they are where you have your plant located then.

And, again, I urge you to look at some of these studies over the past 10 or 15 years funded by the Sloan Foundation, which I think in a lot of different industries, not just in the auto industry, and some were done in steel as well, they seem to indicate that this what I'm calling relational wealth, this idea of having kind of these efficient processes with people that work together well, seems to be something that it's a sustainable competitive advantage, not just something you keep for a year or two.

COMMISSIONER BECKER: That leads me to make one more observation.

I don't believe that you can achieve any of those things in any dignified or humane society without a free-trade union movement, without workers having the ability themselves to be able to demand a share in the wealth that they helped create. I believe this inherently. Our country recognizes that the first thing that we try to get into a nation which is coming out from under the yoke of its totalitarian government is the building of a free-trade union movement. We want that in other countries in order to foster a democracy in some way. Our nation accepts this.

CHAIRMAN WEIDENBAUM: I'm glad you said that so that we can show that there are important areas of agreement.

COMMISSIONER BECKER: Exactly. That's true. That's just an observation for the record.

Murray does this when he's chairing them all the time. He puts these little jewels in there that people don't have a chance to respond to, and I'm taking the advantage of the fact that I'm Chairman today to doing the same thing.

(Laughter.)

Thank you very much.

(Whereupon, the foregoing matter went off the record at 2:48 p.m. and went back on the record at 2:53 p.m.)

COMMISSIONER BECKER: We have a problem. We've been running behind all day, and the hurrier I go, the behinder I get. If this is like our executive board meetings, people start scooting out towards the end. They've made flights when they shouldn't have made them, and they've got bags packed, and they're all anxious to go.

CHAIRMAN WEIDENBAUM: It could have been worse; it could be a faculty meeting.

COMMISSIONER BECKER: That's right.

I very much appreciate the panel taking the time to join us. We have Scott Farrow and Brent Blackwelder, and I understand that's Dan instead of Don -- Dan Seligman.

Why don't we start again from my left with Dan Seligman of the Sierra Club.