THE "SERVICE ECONOMY"

ECONOMIC NOTES

June 1981

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The Peak Already?

Last month we reported that after two years of recovery, industrial production had just about equalled its previous high point. The extent of the expansion, however, was "yet to be determined."

Expansion and Decline

Now it appears that *any* expansion in this business cycle will have to wait, and that a new decline in overall production may begin. In the words of the Wall St. Journal: "job opportunities, along with the economy, have stopped growing...there is strong evidence in the latest Labor Department report that the economy is slowing down. In the manufacturing sector, for instance, the number of jobs slipped 8,000 from its postrecession peak in May..." (7/6)

Interest rates are again at peak levels, with the prime rate hovering around 20%, and bankruptcies are on a sharp increase. The Reagan cuts, sweeping through Congress, will further depress the buying power of the public, another factor contributing to a failing economy.

Going It Alone

Perhaps the biggest factor that is responsible for the distortions in the economy is the present world realities. While its major "allies" are intent on preserving detente, expanding trade with the Soviet Union and other socialist countries, and controlling the arms race, the U.S. government is putting all its efforts into going the other way! And it is being forced to go it alone!

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Save September 19

The AFL-CIO has called a mass March on Washington for Jobs and against the Reagan Cutbacks. The date is Saturday, September 19. Already, the NAACP has endorsed the march and pledged to build it. Many unions are making plans to bring thousands of their members; for example, District Council 37 of AFSCME in New York City has pledged 300 busloads, and the Amalgamated Clothing and Textile Workers of America (ACTWU) has pledged 100 busloads.

This march could be a turning point in the efforts to defeat the offensive of big business that Reagan is leading. It all depends on what *you and your local, your church, and your community group* do to bring people to Washington. It's up to you...

Labor Research Association will distribute a new advertising brochure about Economic Notes to the march participants. But we need your help. Can you pass out 500 copies of the brochure? Please drop us a note or call us; we'll be happy to send you the brochures in advance.

Thank you.

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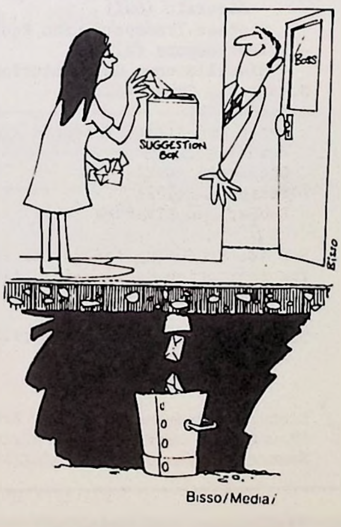

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BARGAINING NOTES

It pays to belong to a union

by Joe Harris

Union workers paid on an hourly basis received wages that were *66% higher* than those received by non-union hourly workers in May 1978, according to unpublished data from the Department of Labor. That information, plus the other data in this article, are mainly taken from an excellent article in the *Federationist* (May, 1981), a monthly publication of the AFL-CIO.

Hourly Wages

Unionized workers (including salaried workers) had wages 41% higher than their non-union counterparts, as Table 1 shows, while hourly paid union workers in service-producing industries had a 69% advantage over their non-union brothers and sisters.

TABLE 1: HOURLY PAID WORKERS: UNION vs. NON-UNION WAGES, MAY 1978

Sector of the Economy	*% Union Wages are Greater Than Non-Union Wages*
Total economy	66%
Manufacturing (all wkrs.)	41
Service-producing industries	69
Transportation and public utilities	48
Wholesale and retail trade	68
Finance, insurance and real estate	37

Source: Unpublished Dept. of Labor data from Current Population Survey

TABLE 2: UNION-NONUNION WAGE COMPARISON by INDUSTRY

*Industry and (Percent Union)**	*Reported Average Hourly Earnings* Union	Nonunion	*Nonunion as % of Union*
Total (32%)	$6.44	$3.88	66%
All Manufacturing (48%)	6.10	4.32	41
Durable Goods (53%)	6.28	4.64	35
Ordinance (65%)	6.44	5.82	11
Primary Metals (77%)	6.68	5.25	27
Fabricated Metals (50%)	5.94	4.62	29
Machinery (except electrical) (45%)	6.38	5.06	26
Electrical Equipment (45%)	5.63	4.40	28
Transportation Equipment (75%)	7.07	5.32	33
Automobiles (88%)	7.27	5.06	44
Aircraft (60%)	6.70	5.68	18
Other Transportation Equipment (51%)	6.47	5.23	24
Instruments (27%)	5.38	4.81	12
Miscellaneous Manufacturing (28%)	4.71	3.70	27
Nondurable Goods (42%)	5.75	3.91	47
Food (54%)	5.79	3.94	47
Paper and Allied Products (70%)	6.18	4.86	27
Printing (28%)	7.06	4.08	73
Chemicals (49%)	6.61	4.90	35
Petroleum (70%)	7.48	6.15	22
Rubber and Plastics (48%)	5.61	4.33	30
Service Producing Industries (23%)	6.13	3.62	69
Transportation and Public Utilities (67%)	7.33	4.95	48
Railroad and Railway Express (94%)	7.08	4.68	51
Trade(Wholesale and Retail)(14%)	5.36	3.19	68
Wholesale Trade(23%)	6.13	4.09	50
Retail Trade (13%)	5.16	3.08	68
Finance, Insurance and Real Estate (8%)	5.17	3.78	37

*Rounded to nearest whole percent

Source: Bureau of Labor Statistics, Federationist, 5/81

Comparisons of union/non-union wages (hourly workers only) by occupation and by industry show that, no matter what category is used, union workers come out best, by far! In Tables 2 and 3, the percentage of the hourly workers who are organized is in parentheses after each category. For example, 32% of "Total" workers are in unions. The hourly wage levels are now outdated somewhat because the data in the tables are for May 1978, but the percentage difference between union and non-union wage levels has widened.

Wages and Salaries

The Bureau of Labor Statistics published data on hourly wage differentials between organized and non-union workers in manufacturing until the end of 1978. Then it dropped the series, in effect, replacing it with an Employment Cost Index (ECI), which covers the entire private non-farm sector with breakdowns by major industries. However, "the ECI has limitations in making union/non-union comparisons. For example, it covers highly paid managers and administrators and professional and technical employees

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It pays to belong (cont'd)

like lawyers and engineers, and it covers all supervisors and foremen." (Ibid.) Even this series, which distorts the comparison between union and non-union workers (production, office, janitorial, etc.), by sticking various *management* employees into the non-union *worker* category, cannot hide the big advantage union workers have over non-union workers. The series shows that union workers are best off, and that union workers are getting bigger wage increases.

From late 1975 through 1980, union workers got wage increases on a percentage basis exceeding non-union workers' wage increases by 21 percent, according to the ECI. For workers in manufacturing, during a shorter period, from mid-1976 through 1980, the ECI shows union workers getting 25 percent more in wage increases than non-union workers.

The union wage rate for manufacturing during the fourth quarter of 1980 was $7.56 an hour and the comparable non-union wage was $5.57 . . . That means there was a $1.99 per hour advantage and a $4,100 per hour advantage for union over non-union workers in manufacturing.

*In other words, non-union workers in manufacturing were making only 74 percent of union workers' earnings. (*Federationist, *5/81)*

TABLE 3: UNION-NONUNION WAGE COMPARISON by OCCUPATIONAL CATEGORY

*Occupation and (Percent Union)**	*Reported Average Hourly Earnings*		*Nonunion as % of Union*
	Union	*Nonunion*	
Total (32%)	$6.44	$3.88	66%
White Collar (19%)	6.16	4.09	51
Professional, Technical Kindred Workers (19%)	7.56	5.64	34
Engineering and Science Technicians (26%)	7.19	5.63	28
Retail Sales (7%)	3.89	2.98	31
Clerical (22%)	5.68	3.71	53
Blue-Collar Workers (46%)	6.76	4.29	58
Craftsmen (49%)	7.96	5.18	54
Operatives (except Transport)(46%)	5.88	3.92	50
Transport Equipment Operatives (50%)	6.83	4.09	67
Laborers, Nonfarm (39%)	6.12	3.61	70
Service Workers (17%)	4.66	2.87	62
Farm Workers (4%)	4.33	2.84	52

* Rounded to nearest whole percent

Source: Bureau of Labor Statistics, Federationist, 5/81

Weekly Earnings

The BLS also publishes a series comparing *weekly* earnings of organized workers with those of unorganized workers. It has the same weakness as the ECI in that both include *all* employees in the non-union category, artificially reducing the impact of unions upon wage comparisons. When top management, for example, are included in the non-union category, the inevitable result is to push substantially upward the average wage level for the non-union workers category.

Weekly earnings for unionized blue-collar workers, according to this series, were 37% higher than for non-union workers; for service workers the differential was 58%; white-collar workers, 6%; construction, 49%; local government, 32%; retail trade, 31%; education, 27%; transportation, 22%; etc. *The overall differential was 19%, far lower than the unpublished data of 66% for hourly workers! (See above.)*

Fringe Benefits For Hourly Workers

Fringe benefits for union/non-union workers were compared in unpublished 1977 BLS data. The material shows that the "$2.75 value of total benefits on an hourly basis for unionized workers, exceeded the $1.13 value of total benefits for non-union workers by 143 percent. On an annual basis, the fringe benefit advantage for union workers was $3,300."

The conclusion? "Union workers get about 30 percent of a much bigger total wage-fringe package in fringe benefits, whereas non-union workers get only 20 percent of a much smaller wage-fringe package in fringe benefits." (Ibid.) □

TABLE 4: RATE of WAGE and SALARY CHANGES, 1979 and 1980

*% Wage and Salary Gains**	*Year Ending December 1979*	*1980*
Union	9.0%	10.9%
Manufacturing	9.4	11.0
Non-manufacturing	8.5	10.8
Non-Union	8.5	8.0
Manufacturing	7.9	7.9
Non-manufacturing	8.8	8.1

* Employment Cost Index

Source: Monthly Labor Review, 6/81

BARGAINING NOTES

Postal workers are on the spot

by Charles Salk

The 1978 three-year contract for four postal unions representing over 600,000 employees expires July 20, 1981.

Negotiations were scheduled to begin April 22, 1981, but due to the anti-labor conduct of Postmaster General William Bolger (sometimes called the *"Little General"* because of his military, autocratic, anti-labor approach), actual negotiations never got under way until June 16, 1981.

Important Contract

The 1981 postal contract is among the most important contracts to be negotiated this year, and the outcome may very well set precedents for other upcoming negotiations.

Here is the real score on the history of postal contract negotiations and the economic status of postal employees today.

Bargaining History

"The history of collective bargaining in the Postal Service dates back to 1962. Back then, four separate National agreements were reached...Since 1970, the Postal Service has recognized the American Postal Workers Union (APWU), the National Association of Letter Carriers (NALC), the National Rural Letter Carriers' Association, and the Mail Handlers Division of the Laborers' Intl. Union." (New York Metro Area Postal Union newspaper *The Union Mail,* 5/81)

Bargaining prior to 1970 was quite difficult due to lack of legal rights for the unions. The Postal Reorganization Act of 1970 changed that situation, however, placing the postal workers under the jurisdiction of the National Labor Relations Act—except for those provisions relating to the right to strike and to negotiate a union shop.

Nation-wide Strike

In 1971, as a result of an unprecedented nation-wide strike of postal employees, the first full union postal contract was signed. The strike was the natural result of years of badly underpaid work and intolerable working conditions, with little avenue for recourse accorded to postal workers.

The Wall St. Journal states that the March 1970 strike ended after eight days "when former President Nixon ordered federal troops to deliver the mail." This is totally untrue. *The strike ended because, after Nixon used every anti-labor trick in the books, including the use of troops, postal workers remained solid and the mail could not be moved.* As a result, management was forced to negotiate the contract, recognizing that postal employees had union rights and providing proper guidelines and avenues of recourse.

Over the next decade, the unions and management improved in sophistication, but under weak union leadership the national unions deteriorated in militancy. In 1978, the union slogan was: *"no contract, no work."* When the national unions negotiated an unsatisfactory agreement, the militancy of the locals, led by the New York locals, forced the negotiations back to the bargaining table.

However, in the confusion when the old contract expired, over 200 workers were fired who allegedly walked out—and only two-thirds have been reinstated since.

Since the 1978 contract was signed, new leaderships have emerged in the two largest postal unions, the APWU and the NALC. Both new Presidents, Moe Biller (APWU) and Vincent Sombrotto (NALC), have proven track records of leading militant struggles.

1981 Negotiations

For the 1981 contract, the APWU and the NALC agreed to bargain together, as they did in 1978. The two smaller unions are bargaining together, but separately from the large unions, weakening the overall unity of the postal workers.

Major Issues

The current negotiations are complicated by the cutbacks in the Reagan budget; these make bargaining infinitely more difficult. The cutbacks include completely eliminating postal subsidies, now $623 million. What will this mean? It means *40,000 jobs,* as well as cutbacks in service. It also means efforts, in practical terms, to impose a *wage freeze.*

Major issues include the following:

- *Ending forced overtime,* even in December;
- *All full-time workforce* (10% are now flexible, part-time workers);
- *Uncapped Cost of Living Adjustments,* with an improved formula. The present formula (1 cent increase for each 0.4 point increase in the Consumer Price Index) only covers 65% of cost increases;
- ☐ Protecting jobs: *no layoffs* for all workers, (the current contracts give no protection to workers hired after January 21, 1978, until they attain six years of seniority);
- Health and safety: *OSHA and EEOC coverage* must be won;
- Grievances: *ending backlogging procedures,* which have led to 13,000 grievances unresolved.
- *Reinstatement* for the remaining workers fired in 1978.

A major issue is increased safety and health conditions for the workers. The public only sees the surface of the postal system. Behind that veneer exist conditions that would shock the American public if they could ever see them. To this day, the postal service, *as a policy,* refuses to permit OSHA to enter postal installations for inspections.

All labor should support the postal workers against the union-busting tactics of the "Little General." Postal workers are on the firing line. The tactics the postal workers pursue should be carefully studied by the rest of labor —hopefully, they will result in a decent contract.

Charles Salk is a retired steward and First Vice-President of the New York Metropolitan Postal Workers Union.

BARGAINING NOTES

State and localemployees

by Ron Kent

Public employees provide the necessary services that are often avoided by the private sector and other so-called "free enterprise" institutions. Whether it is hospitals, homes for the elderly and the handicapped, sewage treatment, road repair and service, lab services, water treatment, social services or workers benefit services, the public employee provide the labor that is needed to keep baseline services operations.

However, public employees do *not manage* these services; politicians and their fair-haired cohorts do. Yet when services decline, the public employee is blamed for lack of services and poor quality control.

Society Needs Public Services

The private sector proponents and their intellectual counterparts—supporters in the press, university and pulpit—have never been able to prove how to serve society without needed public services. Nonetheless, they have stepped up their attacks on public services and public employees.

Under fire from all these sources, it has become even more imperative for public employees to organize into labor unions. This is necessary to protect not only public employees' living standards, but also to preserve baseline public services to many populations without public voices (children in homes, elderly in hospitals, mentally handicapped, and others).

Public Employee Unions

The overview of public employee labor organization can be obtained from the periodic publications of the Department of Commerce. The latest report, *Labor Management Relations in State and Local Government, 1979,* notes that nearly half of the 10.2 million *full time* state and local employees were members of labor organizations in 1979. Membership was up 2% from the previous year, to 4.9 million.

Ron Kent is the international education representative for AFSCME in Wisconsin.

The total number of state and local employees, including *part-time* workers, was 13.1 million in 1979, 13.3 million in 1980, and is projected at 13.2 million for 1981. When part-time workers are included in the statistics, the rate of union membership declines from 48% to 37%.

A total of 32,528 collective bargaining agreements covered 4.1 million state and local government workers in 1979. The quality of these agreements varied a great deal from jurisdiction to jurisdiction. Where the locals are strong, better agreements are found.

TABLE 1: STATES HAVING MOST HIGHLY UNIONIZED STATE and LOCAL EMPLOYEES, 1979

State	% in Unions
New York	77.4%
Rhode Island	73.0
Connecticut	72.2
Washington, DC	72.2
Massachusetts	69.0
Hawaii	68.2
Alaska	60.4
Pennsylvania	60.4

Source: Labor Management Relations in State and Local Government: 1979, Commerce Dept.

Quality of Agreements

Even in highly unionized states, the quality of some public collective bargaining agreements is ten years behind strong private sector agreements. This disparity is often due, in part, to legal barriers to bargaining such as the restriction of subjects public workers can even bargain about with management.

Some public sector labor contracts do *not* contain language on "just cause" for discipline. In others, a grievance must be filed on the worker's time and dues deduction is denied. Dental insurance is usually absent, optical care rare, and even pension and health insurance are battled for in an unheard-of way in many jurisdictions.

In 15 states and the District of Columbia, more than 50% of all public employees were represented by bargaining units—but many states lack significant union organization. For example, in Texas, where 150,000 state employees belong to a mainly management-oriented association, there are no legal bargaining rights. Salaries and conditions reflect a system of top-down politician/management control with little protection for public employees.

Strike Activity

Total work stoppages in the state and local public sector in the one year period ending October, 1979, amounted to 553 stoppages. Strike activity was least present overall in the better organized states. Six mainly unorganized and moderately organized states accounted for 75% of all days of idleness due to strikes or other stoppages of work (Michigan, California, Missouri, Pennsylvania, Louisiana, Ohio).

Labor Law Changes in 1980

Overall, in 1980 most states did little on the public sector labor law front. There were some modest advances, with California and New Jersey permitting agency shop fees for public employees. In Minnesota, state, local, and teaching employees were granted the "right to strike" on 60 days notice, in the absence of an agreement or arbitration award. However, this right was not extended to so-called "essential" employees (e.g., firefighters, nurses, corrections officers).

In other states, there were ominous setbacks. In Hawaii, for example, the state legislature passed a law that provided that public employees who hold positions "essential" to the public health and safety are prohibited from participating in strikes or secondary boycotts—*and can be assigned during strikes that may endanger public health and safety.* Moreover, the statute *deprives public employees of a jury trial* on any alleged violation pertaining to this statute! □

SERVICE ECONOMY

Introduction

by David Eisenhower

U.S. foreign investment over the past 30 years has had a profound impact on domestic employment. Indeed, of all the major forces working to transform the American economy (the enlarged role of government, further growth of monopoly power, militarization of the economy, and organizational and technological progress), U.S. foreign investment must be seen as perhaps the crucial contributor to the shift away from an "industrial" to a "service" economy.

Supporters of this structural change praise its development. They emphasize the emergence of high-paying technical/managerial positions filled by college-trained personnel whose knowledge is said to represent the source of the nation's wealth. These cheerleaders of a "post-industrial" society offer a misleading analysis.

David Eisenhower is a professor of sociology.

Consequences of Shift

Contrary to the mythological view that the shift from goods to services has produced an "affluent society," the transfer of manufacturing activity overseas has had the following domestic consequences: 1), industrial decay (disinvestment); 2), higher levels of permanent unemployment; 3), a vast increase in low-paying, dead-end positions within the "service sector," generally reserved for women; and 4), and overall reduction in U.S. wage levels relative to other advanced capitalist societies.

This "Focus" of Economic Notes examines the amount of export of jobs from the U.S., the size and importance of the "service" economy, business, solutions to the deterioration of manufacturing facilities in the U.S., and elements of a labor program. □

SERVICE ECONOMY

Foreign investment: 7.2 million jobs

by Joe Harris

The largest drain on jobs for U.S. workers is foreign investment by U.S.-based multinational ccorporations. *The parent companies employed 18.9 million U.S. workers in 1977—but their foreign affiliates employed 7.2 million workers, almost 40% of the size of their U.S. labor force.* Employment of foreign workers is made possible by the large-scale foreign investment practiced by the multinationals.

Private U.S. assets abroad totaled $19 billion in 1950. By the end of 1979, they had increased 23 times to $436 billion. Investment abroad takes two major forms: *direct foreign investment* (the purchase of 10% or more of the ownership of a foreign company or "affiliate") and the *lending of money* to foreign corporations and governments.

Foreign investment is dominated by the largest banking and industrial multinational corporations, with the top 100 corporations having the lion's share. About 3,500 multinationals having net profits above $500,000 engage in more than 99% of all direct foreign investment. (*U.S. Direct Foreign Investment Abroad, 1977,* Dept. of Commerce)

Direct Foreign Investments

Direct foreign investments totaled $193 billion at the end of 1979, almost half of all private foreign investment. (*Survey of Current Business*, 6/80) In 1977, direct foreign investment was $150 billion—but the foreign affiliates in which the $150 billion was invested had assets totaling $490 billion, more than three time the size of the direct foreign investment. In most cases, the affiliates are controlled by the multinational investors, and in fact affiliates

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EMPLOYMENT by FOREIGN AFFILIATES, 1977*

Country	Number of Workers (millions)
All countries	7.2
Developed countries	5.0
Canada	1.1
Europe	3.1
France	0.5
West Germany	0.6
Britain	1.1
Other	0.9
Japan	0.4
Australia, New Zealand, South Africa	0.4
Developing countries	2.2
Latin America	1.4
Other Africa	0.2
Middle East	0.1
Other Asia and Pacific	0.5

* Excludes banking

Source: U.S. Direct Investment Abroad, 1977, Dept. of Commerce with assets of $365 billion were majority-owned by the parent (U.S.) companies.

The U.S. parent corporations' assets were $1.5 trillion; thus, foreign assets under their control were one-third the size of the parents' assets. (However, the data does not include assets of domestic corporations in which the parent multinationals own minority shares.)

Foreign Job Growth

The multinationals' foreign affiliates increased their employment by 3% per year between 1966 and 1977—this was 50% faster than total business employment grew in the U.S. *Manufacturing employment rose 3.5% per year among the foreign affiliates while in the U.S. manufacturing employment declined 1.1% per year.*

Employment by foreign affiliates in the developed nations was more than twice as large as in the developing nations, in spite of higher wage rates. Britain and Canada led the list, with 1.1 million workers each.

Manufacturing-4.9 Million Jobs

Foreign affiliates are concentrated in several industries, of which the largest is manufacturing. In 1977, $191 billion, or 39% of all assets, were in manufacturing—but this vital sector employed 4.9 million workers, two-thirds of the employees of foreign affiliates. Petroleum affiliates had assets of $114 billion but employed only 0.4 million workers.

EMPLOYMENT of MANUFACTURING INDUSTRIES: DOMESTIC and FOREIGN, 1977

	Domestic (thous.)	Foreign (thous.)	Foreign as % of Domestic
Manufacturing	11,775	4,849	41%
Food	1,016	436	43
Chemicals	1,207	614	51
Primary & Fabricated metals	1,484	396	27
Machinery, except electrical	1,546	627	41
Electric & electronic equipment	1,274	756	59
Transportation equip.	2,289	910	40
Other manufacturing	2,957	1,909	38

While foreign affiliates' employment of manufacturing workers was 42% (two employed for every five employed in the U.S.), the breakdown by major manufacturing industry reveals that the export of jobs is greater in certain industries that are labor intensive such as electric and electronic equipment, where there were three foreign jobs for every five U.S. jobs (59%). The chemical industry, with major refineries overseas, is also a case in which manufacturing is heavily outside the U.S., with one foreign job for every two U.S. jobs (51%). On the other hand, primary and fabricated metals, with particularly exacting locational requirements and heavy investment of capital, had the smallest export of jobs: one-fourth as many jobs as in the U.S. (27%).

Imports From Foreign Affiliates

Multinational corporations were responsible for three of every five dollars of U.S. imports in 1977, according to the Commerce Dept. Of their $86.8 billion of imports, $41.5 billion (48%) was from their foreign affiliates. "Just under one-half of all U.S. imports from affiliates were manufactured goods, mainly motor vehicles and machinery ($20.5 billion); mineral fuels, mainly petroleum, accounted for most of the remainder." (*Dept. of Commerce News,* 6/2—summary of *U.S. Direct Investment Abroad,* 1977)

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INDUSTRY BREAKDOWN of MULTINATIONAL CORPORATIONS' ASSETS and EMPLOYMENT, 1977

	U.S. Parent		Foreign Affiliates		
	Assets ($ bil.)	Employment (millions)	Assets ($ bil.)	Employment (millions)	Foreign Employment as % of Domestic
All industries	$1,532	18.9	$490	7.2	38%
Mining	7	0.1	18	0.2	287
Petroleum	219	0.9	114	0.4	42
Manufacturing	633	11.8	191	4.9	41
Trade	84	2.5	56	1.0	40
Finance (except banking), real estate, insur.	380	0.9	77	0.1	11
Other industries	220	2.8	34	0.7	25

Source: U.S. Direct Investment Abroad, 1977, Dept. of Commerce

Peak (cont'd)

The headlines tell the story: "U.S., in Defense-Strategy Switch, Plans Power to Fight 2 Big Wars Simultaneously". (WSJ, 6/15). This, while our "allies" more and more perceive the U.S. as oriented toward war and belligerence and are attempting to distance themselves from the U.S. government.

Impact of U.S. Isolation

The economic impact of the U.S. isolation can be seen in the following quotations from *Economic Perspectives,* published by Kidder, Peabody & Co., a Wall Street firm (6/16):

> *"The political backlash in Tokyo over the use of the word 'alliance' points up the difficulties arising from differences in perceptions about the Soviet military threat as viewed from Washington and other world capitals. In Bonn, the Schmidt Government is limiting the increase in real defense outlays to about 1½% as it struggles to restrain a ballooning budget deficit. In London, Prime Minister Thatcher has dismissed her navy minister as she presses her program for trimming defense expenditures...France will be giving higher priority to income redistribution and nationalization at the expense of defense outlays."*

> *"Amidst rising unemployment and high inflation, it is not easy to persuade the Europeans to step up their arms spending in the absence of a military crisis."*

> *"If the U.S. pursues the Administration plan of increasing real defense spending by 9% per year while Europe and Japan expand their military outlays by 3% per year or less, the American economy is bound to suffer by comparison in the long run."* □

SERVICE ECONOMY

Corporate flight

by David Eisenhower

The flight of manufacturing facilities to Europe and Canada, to "export platforms" in Asia and the Pacific, to Mexico, Brazil, and Venezuela, has resulted in plant shutdowns and industrial neglect from coast to coast. The "frostbelt" has experienced the greatest decay.

In a study of the *Consequences of Private Disinvestment* (Progressive Alliance, Washington, D.C., 1981), Barry Bluestone and his associates calculated that *15 million manufacturing jobs were destroyed in the U.S. between 1969 and 1976 due to plant closings.*

The Federal Trade Commission examined the impact of 12 plant closings on those "disemployed" and found that workers generally exhausted their unemployment compensation, lost their seniority, found reemployment difficult, and the new jobs that were found were "less satisfactory" and generally paid less. (Bluestone) "The "crippling effects of plant closings often hit hardest among minorities" since "those industries experiencing the most shut downs (were) frequently in central cities, and (were) those employing relatively large concentrations of minorities."

Minorities Hardest Hit

Accompanying the decline in manufacturing was the disappearance of entry level, low-skilled factory positions, a harsh reality which affected young workers the most, particularly Black and Hispanic youth. The loss of half the manufacturing jobs in New York City over the past three decades has been found to be the primary cause behind the accelerating unemployment among 16 to 19 year olds—from 10.0% and 14.7% unemployment rates in 1969 and 1970, to close to a 30% rate in 1980. (*New York Times,* 3/14)

Epidemic unemployment among Black youth accounted for the bulk of the increase. Herbert Hill, former labor director for the NAACP, observed that persistently high teenage Black unemployment demonstrates "that a permanent Black underclass has developed, that virtually an entire second generation of ghetto youth will never enter into the labor force." (*NYT,* 3/11/79) □

Foreign investment (cont'd)

Manufacturing: Europe Focus

Manufacturing affiliates were concentrated in developed countries, with 80% of total assets there. Europe alone accounted for 51% of the total. Manufacturing assets were largest in Canada ($30.8 billion), followed by Britain ($25.1 billion), West Germany ($21.5 billion), and France ($15.8 billion). Among developing countries, they were largest in Brazil ($12.5 billion) and Mexico ($7.5 billion), with these two countries alone accounting for more than half of the $38.3 billion in assets of manufacturing affiliates of the developing countries.

Profits: 22% of the Total

The multinationals were quite profitable in 1977. Their profits, from both domestic and foreign operations, netted them $81.4 billion, *after* paying taxes. The share they received from their foreign affiliates was $18.2 billion, or 22% of total net profit.

The developing nations boosted the overall profit rate with a rate of return on petroleum of 106.6%. In manufacturing, the rate of return was a little higher in developed countries (17.9%) than in developing countries (15.0%). In Europe, it was 21.1%.

It is no wonder that U.S. Corporations are using the wealth generated by the labor of the U.S. workers, to put the squeeze on their workers. They want to find a way to enforce higher profit rates at home...and what better way to do it than to keep exporting manufacturing (and other) jobs until rising unemployment forces workers into line? □

SERVICE ECONOMY

Profile of the service economy

by David Eisenhower

As factories shut down, office buildings, malls, and hamburger stands multiply. Two promoters of this trend, economists Eli Ginzberg and George Vojta, recently analyzed the changes in the allocation of labor which accompanied the displacement of the production of goods by the provision of services "as the country's principal economic activity." ("The Service Sector of the U.S. Economy," *Scientific American*, 3/81)

While Ginzberg and Vojta's conclusions are faulty, they do offer a useful summary of employment trends since 1945 when the transition from goods to services accelerated. They divide the service sector into four components:

1) *producer services (legal counsel, accounting, managerial consultants, marketing, banking/financial, engineering);*

2) *distributive services* (retail, wholesale);

3) *consumer services* (restaurant, hotels, resorts, laundries, etc.)

4) *government, "defense," and non-profit services* (social services, education, health care).

Service Sector Jobs

Together, these four areas accounted for 68% of the jobs in 1977 compared with 55% in 1948. By 1977, 54.4 million workers were employed in the service sector and only 25.1 million were in the goods sector (19.1 million in manufacturing). This contrasts with 1948, when 27.2 million workers were in services and 20.9 million were in goods production (15.5 million in manufacturing).

While 3.6 million new manufacturing jobs were created between 1948 and 1977, the bulk (3.0 million) fell into the *producer services* category—performing duties similar to those of workers engaged in non-manufacturing producer-service jobs (clerical, technical, managerial). If the value added by these 3 million workers is added to that of other producer-service workers, the total approximates the "value added by manufacturing."

By far, the largest service sector is the government (federal, state, and local), which in 1978 employed directly and indirectly (military, construction contracts) over 26 million people.

Producer-Services: A Mixed Bag

For promotional reasons, Ginzberg and Vojta concentrate their analysis on producer-services. They generalize from the higher educational levels and higher salaries which characterize professionals, technicians, scientists and managers in order to conclude that an "upgrading" of the work force has accompanied the shift from goods to services. Closer examination (and less zeal) reveal a different reality.

Emma Rothschild investigated the new jobs created in the 1970s. Unlike Ginzberg and Vojta, who quickly pass over "the large number of relatively low-wage earners (particularly women) on the public payroll," Rothschild examines the characteristics of the jobs created in the leading areas of the service sector: a), eating and drinking places; b), health services, and c), business services (personnel services, data processing, janitorial services, mailing/reproduction).

Rothschild discovered that total employment in just these three areas grew to an amount larger than those employed in "basic production industries." ("Reagan and the Real Economy," *The NY Review of Books*, 2/5)

Women: The Center of Services

An important feature of these new positions was that they tended to recruit women: 56% in eating establishments; 81% in health services; and 43% in business services. They also offered low pay, often at or near the minimum wage.

New York City has been the cutting edge of this national pattern as business interests sought to transform the the city into the "information center" of the world economy. The 40,000 new jobs opened up in 1980 in NYC were typical. They were predominately low paying service jobs: clerical, sales, secretarial. ("Jobs in NY: More is Less," *Village Voice*, 4/15)

The quest to be the "mind" of the international economy has resulted in a local "economy with a missing middle. In mid-town business development, you get a small bulge of high paid managerial jobs, and a lot of very low-paid basic service jobs," according to Prof. Bennett Harrison of Mass. Institute of Technology. (Ibid.)

Rothschild's findings were in line with the predictions of a September, 1976, Conference Board report which concluded that the vast majority of working women will be locked into low-paying clerical and other service jobs for the indefinite future. (*NYT*, 9/9/76)

Union Busters Thrive

Finally, business is determined to keep wages for the new wave of jobs at a minimum, according to a report issued by the National Catholic Reporter (NCR). An NCR investigation of the largest union-busting consulting firm, Modern Management, Inc., revealed that MM had "built up a coast to coast network of actively anti-union clients, including many of the nation's largest retailers, banks, insurance firms and non-profit institutions (particularly hospitals)." (4/17) □

SERVICE ECONOMY

Solutions to the economic crisis

by David Eisenhower

While no simple explanation exists for the complex (and chronic) problem of unemployment, a partial but significant explanation lies in the development of the service economy itself, partly the result of the export of manufacturing jobs.

"Unproductive" Services

Emma Rothschild observed that the jobs in the service sector tend to be "unproductive," in that many service workers engage in activities which do not produce material values. Rather, they a), transfer shares of the values already produced to their employers (eg., distributive financial services); b), perform auxillary corporate duties sustained out of potential profits (eg., marketing, administrative, clerical services; and c), provide social services which are paid for out of profits and wages (eg., government and non-profit activities). (*N. Y. Review of Books*, 2/5)

The costs of these activities, which consume values already produced, are not limited to the wages/salaries of service workers. The expense of the machinery they use (computers, xerox, typewriters, etc.) and the buildings in which they work (offices, banks, shopping centers, hospitals, schools, military factories) must also be included.

Inverted pyramid

As the share of the economy devoted to unproductive services (including "defense") grows, an inverted pyramid develops: profits based on material production by an ever-smaller portion of the working population are needed to support ever-expanding use of those profits as services to corporations, the government, and the populace.

This begins to assume crisis proportions when the profit-producing sectors do not expand profits rapidly enough—a condition brought about 1), by the diversion of profits from the productive sectors, resulting in their neglect, not their expansion; 2), by increasing foreign investments; and 3), by growing international competition over shares of profits.

Three Business "Solutions"

Faced with economic crisis, the business "community" is engaged in a loud debate over what to do about it. The three alternatives being debated all call on workers to "tighten their belts"; all guarantee a period of austerity.

- *"Supply-side"* solutions combine attacks on workers, slashing of social programs, tax cuts for the wealthy and corporations, selective protection from foreign competition, and deregulation of corporations in order to make investment more profitable. Just why this combination would improve the economy remains a mystery. The belief that the "free market" will perform miracles once profits are improved is belied by the actions of the oil industry. Rather than creating new jobs, increased profits were used to purchase already existing minerals and competing energy companies.
- *"Deindustrial policies"*, advocated by Ginzberg and Vojta, Robert Reich (*Nation*, 3/7), and others is the second major business alternative. They urge that government help business phase out the less profitable investments, concentrating instead on stimulating the knowledge-intensive industries (producer services and information equipment.)
- The third alternative being debated is a *"reindustrialization"* policy. Advocates like Wall Street millionaire Felix Rohatyn point out that "we cannot become a nation of short-order cooks and saleswomen, xerox-machine operators, and messenger boys...These jobs are a weak basis for the economy...To let other countries make things while we concentrate on services is debilitating both in its substance and its symbolism." (*Newsweek*, 5/4)

Reindustrialization calls for the creation of a modern variant of the Reconstruction Finance Corporation which will lend money to ailing corporations in order to "revitalize American industry."

The conditions for the loans would be "tough." Labor would have to exercise "wage restraint." Companies would have to trim back. New York City's Municipal Assistance Corporation (MAC), which Rohatyn headed, is the model. The harsh austerity against labor which MAC introduced is the clear implication of "reindustrialization."

Elements of a Labor Program

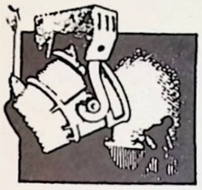
None of business' responses to the simultaneous crises of unemployment and inflation, due partly to the development of a service economy based upon foreign superexploitation of manufacturing labor, responds to the immediate needs of workers for an end to plant shutdowns, and for full employment.

A first step necessary to achieve these objectives is a *government take-over and refurbishing of closed-down plants.* They must not be run by private management—who allowed them to decay—but by boards of plant workers, engineers, and government representatives (subject to recall, of course).

Such a step should be seen as a critical phase of a drive to nationalize essential industries and financial institutions, creating the preconditions for introducing the planning necessary to achieve workers', rather than business', objectives.

Another step would be *strict controls on foreign investment and the consequent export of jobs.* Corporations that violate the controls should be subject to government take-over.

The development of the present service economy in the U.S. is unhealthy, *not* healthy. To a large extent, it is based upon an exploitive international division of labor. This must be stopped, for the good of workers all around the world. □



Steel barons' new mood

by Thomas Kenney

The "orange book," the bright orange-colored publication with the title "Steel at the Crossroads: The American Steel Industry in the 1980s," is the steel companies main recent propaganda salvo. Issued in January 1980 by the American Iron and Steel Institute, it said that the U.S. steel industry was in a crisis because profits were too low.

Complaints by Industry

Profits were low, allegedly, "because of "inadequate depreciation laws" (i.e., taxes were too high); 2), because foreign steel was being "dumped" in U.S. markets at below-cost-of-production prices; 3), because of excessive government regulation, especially the Environmental Protection Agency (EPA) and the Occupational Safety and Health Administration (OSHA); 4), because of government discouragement of steel price increases; and 5), because steelworkers' wages were too high.

The orange book predicted that if the U.S. government didn't act vigorously in favor of steel company profits, a disastrous "Scenario II" would follow. This would involve "unprecedented reliance on imported steel, a huge steel trade deficit, an accelerating decline in the industry's efficiency and competitiveness, further facility closedowns, and substantial job losses in both steel manufacturing and related support industries."

Job Losses Predicted

Even if the steel companies got everything they wanted ("Scenario I"), 22,000 jobs would be lost in the years 1978-88. If they got none of their objectives, 89,000 jobs would be lost in the same period, it said.

Reagan and a "New Mood"

Since Reagan's election in November 1980, no longer are the steel bosses so gloomy. Already the Reaganites have given steel much of what it demanded in the orange book. To aid the steel industry (and other industries), Reagan has:

- Pushed through new rulings to permit "accelerated depreciations," to lower taxes and raise profits.
- Allowed the steel companies free rein to raise their prices. The steel companies have raised prices twice in recent months, 6% in January and 6.5% in June.
- Weakened EPA and OSHA enforcement.
- Reaffirmed its commitment to protection for steel from foreign competition (the "trigger price mechanism," which sets a minimum price for imported steel). This mechanism will be enforced even more strictly.

Symptoms of the New Industry Mood

Since November 1980, the steel companies have approved investments totalling over $3 billion. (*Journal of Commerce*, 5/28)

According to Donald Troutleen, chairman of Bethlehem Steel: "All the things we have been harping about are pretty well embodied in the Reagan program, so this ought to be a time when we can really make a go of it." (*Iron Age*, 4/15)

" 'We will plow it back,' promises U.S. Steel chief executive officer David Roderick, referring to the prospect of freed up cash resulting from business tax reform emerging in Washington," "I think we are going to see more and more steelmaking capacity built in this country," Roderick said in an interview with *Purchasing*. (5/14)

Selective Investments

The new steel investments are selective. Harry Holiday, chairman of Armco, said American steel companies are no longer "playing the capacity game." The new watchword is "profit per ton." The new capacity is aimed at producing items most in demand, e.g., oil pipes and seamless tubing, stainless steels, coated steels, and high strength steels.

At the U.S. Steel annual stockholders' meeting, Roderick declared that the company's four "problem plants": Gary, Chiago's South Works, Fairfield, and Texas were already, or soon would be, profitable—and that there would be expansions and additions at these locations. Continuous casting is being introduced.

Different Mood Among Steelworkers

The steel bosses are jovial because with Reagan in office they are succeeding in resolving some of the steel industry's problems at the expense of the steelworkers and the public. From the steelworkers' standpoint, the outlook is grim.

If the industry gets its way, higher steel profits will not result in more jobs. Rather, new investment will modernize existing facilities. In most cases, after modernization the employment level at a given site will stay the same or decline somewhat.

Moreover, U.S. Steel put one half of its capital spending in 1980 into non-steel businesses.

The orange book's predictions on future job losses should not be taken as inevitable. The question of whether jobs will be lost depends not only on what the companies want to do, but also on how well workers fight to save steel jobs and create new ones. □

Falling real wages in steel

by Thomas Kenny

Now even Wall Street admits what LRA asserted more than one year ago: steelworkers' real wages are falling. Chart 1 is from Merrill Lynch's *Steel Industry Quarterly,* May 1981.

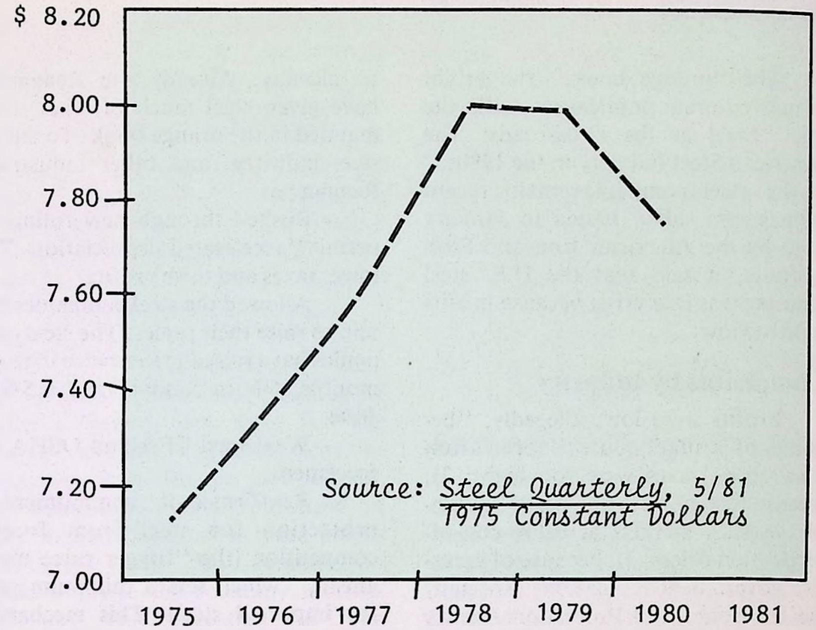
Despite the decline, the steel industry is pushing for ever lower real wages and worsened conditions. The attack is on several fronts:

- *Steelworkers' wages* are above the manufacturing average; therefore, they must be lowered. This is coupled with the threat of shutdowns. Roderick: "We need to have the unions understand that while unduly rich negotiating benefits, ones that are substantially above the average for all manufacturing, may be a great victory, that's only true at the time you win them. If as a result products cannot be produced competitively, then plants are shut down and communities are depressed...we are all in this boat together, the government, industry, the workers"... (*Purchasing,* 5/14)

Merrill Lynch notes that steelworkers' wages tend to be above manufacturing average in most countries. Japanese steelworkers earn 50% above the manufacturing average wage. (*Steel Industry Quarterly,* 5/81).

- *Speedup:* The industry plans to obtain more output for each wage dollar spent. The "labor-management participation teams" agreed to in the April 1980 basic steel contract will be used in this drive.

US STEELWORKER REAL WAGES



- *The Experimental Negotiating Agreement (ENA):* Fourteen months after the last basic steel contract was signed, no decision about ENA has been made. The ENA provides a 3% annual base wage increase, a cost-of-living adjustment (1¢ per hour for each 0.3 point increase in the CPI). The industry claims it is "too expensive."