Real wages fall as attack on US workers intensifies

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In a stark indication of the mounting attack on the social conditions of American workers, the average real wage in the US has begun to decline steeply for the first time in over a decade. The decline in wages is a product of increased inflation in recent months, combined with a persistently poor job market, even in the midst of a supposed economic recovery.

The wage figures have come out amidst a multi-front assault on the social position of the working class in the US. The government and American business are carrying out a wholesale attack on benefits and working conditions, an attack that is having devastating consequences.

The *Financial Times* reported on May 10 that real wages declined in both the first quarter of 2005 and the last quarter of 2004. Inflation through March 2005 was 3.1 percent, while wages increased by only 2.4 percent. The result is an overall decline in the spending power of workers. In October-December 2004, real wages declined by nearly 1 percent, the steepest fall since the beginning of 1991.

The *Times* commented, "Many economists believe that in spite of the unexpectedly large job creation of 274,000 in April, the uneven revival of the labor market since the 2001 recession has made it hard for workers to negotiate real improvements in living standards. Even after last month's bumper gain in employment, there are 22,000 fewer private sector jobs than when the recession began in March 2001, a 0.02 percent fall. At the same point in the recovery from the recession of the early 1990s, private sector employment was up 4.7 percent."

A February 2005 study by the Economic Policy Institute found that the real wages for most American workers fell or remained flat for all of 2004, with only the top 5 percent of wage-earners seeing their incomes rise. Even though jobs were added throughout 2004, the number of additional jobs was substantially less than is normal during a period of economy recovery.

The EPI noted, "Due to the relatively modest amount of job creation, long-term unemployment levels remained exceptionally high, with the number of unemployed individuals exhausting their regular state unemployment benefits and not receiving additional aid hitting a record level of 3.5 million."

Indeed, the unemployment rate in the US still stands at a relatively high 5.2 percent, in spite of last month's job figures. Moreover, the percentage of the working age population that is not considered part of the workforce—including people who have given up hope and have stopped searching for a job—is still at 34 percent, well above where it stood before the recession began in 2001.

There is little evidence that the situation is likely to improve for US workers. Stephen Roach of Morgan Stanley noted in a comment to the *New York Times* on April 12, "We're in for a long period when inflation-adjusted wages will be under acute pressure. That's a most unusual development in a period of high productivity growth."

The high productivity growth during the same period has meant that American corporations, on average, have been getting more out of their workers for less, and this, combined with corporate tax cuts, has translated into an increase in corporate profits. In its February 10 issue, the business magazine *Economist* noted that in 2004 "America's after-tax profits rose to their highest as a proportion of GDP for 75 years.... The flip side is that labor's share of the cake has never been lower.... Over the past three years American corporate profits have risen by 60 percent, wage income by only 10 percent."

Capitalism always moves in cycles, with periods of relative growth followed by periods of relative decline. One of the main characteristics of a time of general economic downturn is that the periods of relative economic growth are shorter and shallower than the periods of slump. The periods of growth do not translate into real gains for broad sections of the population. Even though economists declared an end to the recession three years ago, conditions faced by the majority of workers continue to stagnate or decline.

There is much talk in economic circles of a new "soft patch" in the economy, in spite of the April job figures. March saw a very small growth of jobs, a deceleration of consumer spending and a sharp fall in capital goods orders. There is concern that the decline in real wages, while helping to boost profits, may contribute to a drop in consumer spending, the main vehicle of economic growth in the US. The US consumer is already burdened by enormous levels of debt and confronts rising prices for oil and basic necessities. A fall in wages could tip the scales.

The rise in corporate profits, and the corresponding enrichment of a small percentage of the population, is not a sign of strength in the American economy. Rather, it is a product of a quite deliberate attempt to shift wealth in the US up the economic ladder—a transfer from the poor to the rich. The response of the American ruling elite to a decline in its economic hegemony—a decline that was most recently demonstrated in fall of General Motors and Ford bonds to junk status—has been to wage an increasingly ferocious attack on American workers.

There are many aspects of this attack in addition to wage reductions. At many of the major corporations, and in particular the airline and auto giants, a campaign is under way to eliminate so-called "legacy costs." These legacy costs include health care and secure pensions, as well as a tradition of job security for workers at these companies.

The decision of a bankruptcy court earlier this week to give United Airlines the go-ahead to dump its pension program of 122,000 of its workers on the federal government is the latest, but by no means last, round in the assault on pensions. The other major airlines will be

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forced to follow suit, transforming themselves into the mirror image of the low-cost airlines with which they are competing, where low-wage, no-benefit labor is the norm. (See "Court approves termination of United Airlines pension plans")

The next industry where legacy costs will be eliminated is the auto industry. As the bond status of GM and Ford was reduced, Wall Street made it clear that it expected the auto giants to find some way to dump their high health care and pension costs. The magazine *BusinessWeek* was quite explicit in its prognosis. In an article in its May 9 issue, the magazine declared:

"*BusinessWeek*'s analysis is that within five years GM must become a much smaller company, with fewer brands, fewer models, and reduced legacy costs.... [CEO Rick Wagoner] is going to have to force a radical restructuring of his workers and the rest of the entrenched GM system, or have it forced on him by outsiders or a bankruptcy court.... At some point the laws of physics take over and, like steelmakers and airlines, GM is at the mercy of global forces. It simply cannot compete in a global economy with the enormous burden it now carries in legacy costs. It certainly cannot meet those costs for long off a shrinking sales base and negative cash flow. And distracted by those woes, it can't begin to make the investments necessary to match the Koreans on price, the Japanese on quality, and the Europeans on performance." What is the "legacy" that must be eliminated? It is the legacy of a period in which a section of American workers was able to secure certain rights and social benefits: relatively secure jobs, a guaranteed pension, some assurance that if one got sick it would not result in personal bankruptcy. As far as the American ruling elite is concerned, all of this legacy, or whatever remains of it, must go. This includes not only pensions and health care paid by corporations, but also pensions and health care paid by the government—Social Security, Medicaid and Medicare. These programs all represent a drain on surplus in one form or another. As tax cuts are implemented to funnel money back to the ruling elite, the programs that these taxes helped pay for must be scrapped. From the standpoint of US government policy, programs that provide health and retirement benefits to the American worker are unacceptable diversions from other spending priorities—above all the financing of military adventures to secure cheap raw materials and markets.

The drive by the Bush administration to "reform" the giant entitlement programs is rooted in the determination to scale back benefits won by American workers. Bush's latest proposal to modify Social Security is to scale back benefits for "better off workers," defined as those making over $20,000 a year. Paul Krugman noted in his May 9 column that the plan involves a blatant contradiction: "To avert the danger of future cuts in benefits, Mr. Bush wants us to commit now to, um, future cuts in benefits."

Krugman also noted the differential between relative benefits between rich and poor people as a result of the combined tax cuts and proposed Social Security reform. "Suppose you're earning $60,000 a year," he wrote. "On average, Mr. Bush cut taxes for workers like you by about $1,000 per year. But by 2045 the Bush Social Security plan would cut benefits for workers like you by about $6,500 per year." However, for someone making $1 million a year, "You received a tax cut worth about $50,000 per year. By 2045 the Bush plan would reduce benefits for people like you by $9,400 per year."

Thus the combination of tax cuts and Social Security reform involves a huge transfer of wealth from poorer Americans to the very wealthy. Of course, the main aim of the Bush administration is not to reform Social Security, but ultimately to eliminate it.

With Medicaid, the state and federal governments—with the participation of both the Democratic and Republican Parties—are carrying out massive cuts in a program that benefits the most vulnerable sections of the population: the very poor, the elderly, the disabled and children. Public spending on housing is set to be slashed by half a billion dollars, which will have an immediate impact on the 2 million low-income families who rely on the government to help provide shelter.

The Medicare reform bill, scheduled to go into effect in 2006, is the first step in the privatization and dismantling of the Medicare program. In a particularly vindictive move, the government announced last week that poor people on food stamps who qualify for additional aid through the Medicare prescription drug benefit may see their food stamps decline—just in case anyone thought that the poor might get at least something out of the deal.

As wages decline, jobs become more insecure and the social safety net is dismantled, millions of working people in the United States are confronted on a day-to-day basis with imminent catastrophe. If anything goes wrong—a layoff, a sudden and unexpected medical cost, a death in the family, a sudden drop in housing values—financial crisis looms. As if in anticipation of this growing crisis confronting American workers, the government recently passed bankruptcy legislation, with significant bipartisan support, that will undermine the ability of individuals to escape the burden of their creditors.

After decades of betrayals on the part of the trade union bureaucracy, there exists no organizational opposition to the assault by the American ruling elite. The Democratic Party has abandoned any real commitment to social reform and has joined hands with the Republican Party in attacking social programs. All of this is creating conditions for a social explosion that must inevitably develop outside of, and in opposition to, the existing political structure.

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