

from the office of

*Economy -  
Wage Stagnation*

# Senator Edward M. Kennedy of Massachusetts

ADDRESS OF SENATOR EDWARD M. KENNEDY  
"THE RISING TIDE MUST LIFT MORE BOATS"  
CENTER FOR NATIONAL POLICY  
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I'm grateful to your president, Mo Steinbruner, for that generous introduction, and I also want to acknowledge your Chairman, my former outstanding colleague in Congress, Mike Barnes. I'm honored to address the Center for National Policy. The Center has made impressive and innovative contributions to the national debate. It truly is a national policy center. I hope to speak with you today in that spirit -- about the future of the American economy, the clear and present threat to the American standard of life, and a strategy for a prosperity that lifts not only the numbers and statistics, but the wages and hopes of hardworking people.

By most indicators, the economy is doing very well. The stock market is hitting record highs. Inflation has been low and consistently so. Unemployment is down. And after years of slow growth, productivity is finally on the rise.

But those appearances are deceiving. The prosperity is less than it seems -- because it is uneven, uncertain, and inequitable. All is not well in the American economic house, because all is not well in the homes of too many American workers and their families.

Americans are working more and earning less. Their standard of living is stagnant or sinking. They have been forced deeper into debt and they have less to spend. They worry -- about losing their jobs, losing their health insurance, affording their children's education, caring for their parents in old age, and somehow still saving for some semblance of security in their own retirement.

President Kennedy said that a rising tide lifts all boats. And for the golden decades after World War II, that was true. But today's rising tide is lifting only some of the boats -- primarily the yachts.

The vast majority of economic gains are being channeled to the wealthy few, while the working men and women who are the strength and soul of this country and its economy are being shortchanged.

From World War II until 1973, national economic growth benefitted the vast majority of Americans. We were all growing together; but now we are growing apart -- and the result is a tip-of-the-iceberg economy. Since 1973, the lower 60 percent of American wage earners -- three fifths of our entire workforce -- have actually lost ground. Real family income has fallen for 60 percent of all Americans, even as the income of the wealthiest 5 percent increased by nearly a third, and income for the top 1 percent almost doubled. As we approach the 21st century, we confront an economically unjustified, socially dangerous, historically unprecedented, and morally unacceptable income gap between the wealthy and the rest of our people.

Twenty years ago, the typical CEO of a large corporation earned 40 times the salary of the average worker. Today that CEO earns 190 times more. Can this be called fair? Can this be the basis of a good or even a stable society?

Productivity gains used to guarantee wage gains. But not anymore. In 1994 and 1995, productivity rose by 3 percent. Yet wages fell by more than 2 percent -- the biggest drop in eight years. So the average worker did more, and yet the income gap grew worse.

Flat or falling wages are compounded by the ever present specter of layoffs. Once, corporations reduced their workforces only when they were in trouble. But now profitable companies are laying off good workers, at a time of increasing sales, in an endless quest for ever fatter profits and ever higher stock prices.

The recent merger between Chase Manhattan Bank and Chemical Bank earned rave reviews on Wall Street -- but brought anguish and loss to so many homes. Stock prices soared, but 12,000 jobs will be lost. Can this be called fair? Can this be the basis of a good or even a stable society?

And as economic insecurity multiplies, other values suffer. Community and family feel the pressure. Parents work longer hours or take second jobs, and every extra hour on the job is taking from their children -- time not spent at Little League, or PTA, or simply reading a bedtime story.

Every loss of health insurance; every cut in support for child care, schools, colleges, and job training makes it harder for families to earn a better future. There are those, even in my own party, who see a separation between economics and values -- a theoretical opposition which they use and misuse as an excuse for evading fundamental economic questions. But we cannot solve great social problems by instructing people to be good while their financial situation is going from bad to worse. The V Chip makes sense, but it is no substitute for college loans. It will not buy clothing or food. It will not give working families a sense of hope. We have no chance of restoring values if we don't improve the lives of working Americans. When the economy is wrong, nothing else is right.

A storm is coming, and the effects are already being felt by most families. Only the short-sighted, who look only to the next quarterly report, can be content to live with the clouds that now also shadow corporate horizons. Soon the winds will be blowing through the boardrooms too. America's workers are also America's consumers. We can only lay off so many workers, cut wages and benefits by so much, and tear down government support programs for so long, before we downsize the consumer sector as well. In a winner-take-all economy, eventually there will be fewer buyers, and fewer winners, and ultimately even many corporate losers.

The Republican program, from the Contract with America, to the flat tax, exploits the income gap -- but does nothing real to solve it. The silence on this fundamental issue from the Republican Presidential candidates on the campaign trail is deafening.

By bashing Medicare, slashing education, and trashing the environment, Republican budget plans only widen the disparity. In fact, half of all spending cuts in the Republican budget that President Clinton vetoed came from programs benefiting the bottom 20 percent of families; less than a tenth of the cuts come from the top 20 percent.

Two-thirds of the tax breaks in the Republican plan would flow to the top 20 percent -- and the bottom 20 percent would actually face a tax increase. The middle 60 percent would suffer a net loss too, once the spending cuts are factored in.

It makes no sense for Republicans to preach hope, growth, and opportunity -- while touting policies that bring growth only to the richest, deny hope to the poorest, and restrict opportunity for the vast majority.

We need to set a different course. Early in this century, as Henry Ford pioneered one of America's great new companies, he raised the wages of his workers to twice the average in other industries. It made little apparent sense in terms of short-term profits. But he knew that in the long run, he would sell more Model T's

if his own workers could afford to buy them. In the truest sense, he created his own consumers.

There are still some Henry Fords left, like Aaron Feuerstein, the Massachusetts mill owner, who decided to keep paying his employees instead of laying them off while he was rebuilding a factory that burned down last December.

The issue is not rich against poor, management against labor, or individuals against government. Sadly, the Party of Lincoln is now dividing America against itself. We cannot permanently sustain a prosperity that permits us to be divided between the wealthy few and the worried many.

We are committed to a free economy. But in times of testing in the past, we have had to act together as a nation to maintain the economy's freedom. A century ago, when economic power was concentrating in monopolies, we enacted the antitrust laws. In the midst of the Great Depression, we created a New Deal of employment programs and a social safety net.

Our day is different and our answers must be matched to it. But one basic principle remains the same: Government does have a role to play as the agent of our common concerns, and the expression of our shared values. The era of big government may be over, but a return to the era of no government is no answer.

President Clinton has spoken eloquently about this issue. So has Secretary of Labor Robert Reich, and so has the Center for National Policy. This is a defining moment for our nation -- and a defining test for our party. We say we are the party of the people. Then how can we say little, and offer even less, while the very people who are the very reason for our being watch their livelihoods and lives become diminished?

Other great tests of conscience and purpose, like civil rights and the Vietnam War, may have been more visible and more immediate. The income gap has been opening slowly, over a period of years. Perhaps it could have been diagnosed earlier and treated sooner. Instead, it has festered quietly, and caused a long, slow-motion depression of wages and job security.

If we do not respond to this Quiet Depression, if we do not stand up now for the people we are supposed to represent, then as Democrats we will not deserve our name, our history, or their continuing confidence. It is our urgent task to fight for an economy where working families and the middle class can begin anew to make gains.

So today, I am proposing a strategy to end the income gap -- to put the American dream back in the dreams of all Americans. Each part of society has its

role to play -- the business sector, the individual, and government. The strategy I advocate combines incentives for good corporate citizenship -- improved protections for workers' rights -- increased investment in education, training, technology and research -- and greater wage and benefit security for all workers.

I realize that any strategy that requires legislative action has little chance in the present Congress. But the temporary ascendancy of reaction is no reason to be silent about what's right for America. Let us fight out the 1996 election on the fundamental issue of the income gap. And when President Clinton is re-elected, and Democrats retake Congress, let it be our pledge and our priority to right this lopsided economy.

Nothing less will do. The economic insecurity of millions of American families breeds distrust among our citizens and disrespect for our government. It tears us apart as a nation, and erodes law and order. It undermines family and community life -- and threatens the character of America as a society of opportunity and justice for all.

First, as a basic precondition of all else, we must assure reliable, substantial and sustainable economic growth. Growth alone does not guarantee better incomes; but without it, we have no chance of closing the income gap. We cannot solve the problem of stagnant wages by redistributing rewards within a stagnant economy. Inflation has been lower for longer than at any time in decades; the Federal Reserve Board must become more aggressive in permitting and encouraging economic growth.

The Federal Reserve's charter requires it to pay attention to two goals -- reducing unemployment and fighting inflation. Both goals are critical, but the Board too often seems to attend to only one of them. We need greater growth. We cannot right the nation's economic imbalance, or reverse the income gap facing working families, if 2.5% is the fastest which the Federal Reserve will let the economy grow.

America is historically a growth nation -- and any policy that long defies that history will put this society at risk. We are stable, free people in part because we are also a people of plenty.

Second, we should create a two tier corporate tax rate that rewards those corporations which create higher quality and better paying jobs here at home. Let's accept the profit motive, and make it work for our workers as well as our corporations. I am not proposing tax penalties for bad corporate conduct, but tax incentives for good corporate citizenship.

We reward other countries with tariff benefits if they qualify as "Most

Favored Nations." Now we should establish a category of "Most Favored Companies" and reward them if they share profits with workers, maintain or add good jobs, and treat their employees well.

Businesses will qualify for Most Favored Company status on the basis of their quantifiable track record over a rolling four-year period in creating jobs -- avoiding layoffs designed simply to maximize profits -- paying adequate wages -- sharing gains -- training and upgrading skills -- and providing decent health care and retirement benefits.

Most Favored Companies will be taxed at a reduced rate -- for example, 30% rather than 34% -- or a 10% reduction for companies taxed at lower rates. To take advantage of the reduced rate, the company would agree to allocate half of the tax benefit to its workers.

Third, we should supplement the two tier corporate tax with other incentives to close the income gap.

We should provide comparable incentives to encourage fair treatment of employees in the non-profit sector, and in start-up firms and other enterprises that pay no tax or little tax.

We should adopt a tax incentive to encourage employers and workers to place retirement savings in pension funds, IRAs, and 401(k) plans that invest in Most Favored Companies.

We should reduce the capital gains tax on new equity investments in Most Favored Companies.

We should give preference to Most Favored Companies in awarding government contracts and grants.

We should provide tax credits to businesses that convert full or part-time workers without benefits to employees with adequate benefits. We should encourage companies that award dividends to their stockholders to contribute a similar benefit to their employees. Shareholders in companies that do so should have their dividends taxed at a reduced rate.

We can pay for all these changes by eliminating costly tax loopholes that encourage layoffs, discourage job creation, and reward companies for moving American jobs overseas. Over the next seven years, corporate welfare, tax loopholes and tax preferences will cost the federal government over four trillion dollars. In 2002, these tax entitlements will represent a larger share of the federal budget than Social Security, Medicare, or Medicaid.

The loopholes are gaping. In 1991, 73% of foreign-based corporations doing business in the United States paid no federal income taxes -- I repeat, not a single dollar. And more than 60% of U.S.-based companies paid no U.S. income taxes.

We should eliminate the transfer-pricing loophole, under which multinational companies avoid U.S. taxes by shifting income through rigged transactions to overseas subsidiaries.

We should eliminate the runaway plant loophole, which lets foreign subsidiaries of American companies defer taxes on income earned abroad. These companies never pay taxes on their profits if they reinvest them overseas. The painful, preposterous result is that our tax laws generate new jobs and investments in foreign countries rather than here at home in America.

We should close down the foreign sales corporation loophole, a paper shell that lets companies shield thirty percent of their income from U.S. taxes.

We should eliminate the title passage loophole, which encourages U.S. companies to move profitable transactions onto the high seas to avoid U.S. taxes. In fact, this loophole was closed in both the House and the Senate versions of the Tax Reform Act of 1986, only to have it reappear behind closed doors in the final bill.

We can and must close the Benedict Arnold loophole, which allows billionaires to renounce their citizenship and move to a foreign tax haven in order to avoid taxes on the wealth they have accumulated in America. In 1995, the Senate voted overwhelmingly to end this disgrace. Yet the Republican budget quietly restores it.

Fourth, we should act to put new trust in antitrust, by amending the law to restrain mergers and acquisitions in cases where combinations and spinoffs will cause layoffs so large that they are contrary to the public interest. Our goal is not to penalize the efficiency and productivity needed to compete in the new international economy. But the antitrust laws now bar monopolies harmful to communities, to geographical regions and markets, and to consumers. The same prohibition should apply to mergers that can affect communities, regions, and workers even more adversely than any monopoly ever would.

We should eliminate tax deductions for expenses for mergers and acquisitions that result in substantial layoffs, and strengthen existing provisions in current law that limit the deductibility of interest on massive debt utilized in these acquisitions. We should re-examine accounting rules that invite the corporate restructurings that encourage massive layoffs, downsizing, and reduced wages.

The fifth step in this new economic strategy is to expand opportunities for workers who want union representation. Today, employers who interfere with free choice and intimidate union advocates get away with only a slap on the wrist for their lawless conduct. Penalties for such violations should be strengthened. And the federal government should deny contracts and business to companies that repeatedly, flagrantly, or willfully violate their employees' rights and dignity.

We should also re-tool labor law itself to fit the growing number of temporary workers who move from one employer to another on short-term assignment, as we did in the construction industry. It is almost impossible under current rules for them to be represented by unions in negotiating for better wages, benefits, and working conditions. Federal law here has to be changed. A flexible workforce must not mean an exploited workforce.

Sixth, government at every level -- federal, state, and local -- must invest in education and training. In an increasingly global economy, uneducated workers in America will find their wages increasingly pressured downward by unskilled and underpaid workers overseas.

We need to work with states and local school districts to demand and to help all schools meet high standards of achievement and to expand early childhood education. We need to change the way we train teachers and offer them the recognition and support they deserve on the basis of their performance. As President Clinton has pledged, we should install computer technology in every school by the year 2000, in co-operation with businesses across the nation. We cannot prepare children for the 21st century in 1950's classrooms.

The doors to college must be re-opened to more Americans. Tuition costs should be deductible, and every qualified high school graduate should be guaranteed economic access to higher education.

We must provide training for real jobs to high school students not going on to college. We must provide retraining for workers who lose or change their jobs. We must reward companies that invest in upgrading the skills of their workforce.

Seventh, since small business is the real job creator in the new economy, it must be encouraged to do what it does best -- create new products, enter new markets, increase productivity, and thereby put more people to work.

We must reduce the red tape associated with government assistance and regulation. Small businesses employ 50% of our workers, yet bear more than 60% of the regulatory burden. The average annual cost of regulation, paperwork, and tax compliance for small business far surpasses what large companies have to spend as a percentage of revenues. A recent Small Business Administration study found that

19 cents of every revenue dollar in small companies of less than 50 employees was spent on regulation. Genuine regulatory reform can ease these burdens. It could have been enacted by Congress long ago, if so many on the other side were not so intent on misusing regulatory reform as an excuse and a cover to protect polluters, undermine the environment, and jeopardize health and safety in the workplace.

Eighth, we should make research a priority -- in terms of both direct federal funds and new incentives for business. Despite its far smaller economy, Japan will spend more dollars on non-defense R&D than we do next year. Yet, the Republican budget plan would cut R&D spending by 30% by the year 2002. Nothing could be more short-sighted than this policy of financing an unneeded tax cut by retreating from the scientific frontiers of future prosperity. Both the laser and the transistor resulted from government financed R&D. Computers, integrated circuits, medical breakthroughs like MRIs, and even the revolution of the Internet were federal R&D initiatives.

Ninth, we should do more to defend American workers against low-wage labor and sweatshop practices from overseas. It is not protectionist to refuse to compete on the basis of who can exploit their workers the most. We should declare a pause before entering into new free trade agreements, so our economy and our companies can adjust to NAFTA and GATT. And we should condition any and all new trade benefits on compliance by other countries with international labor standards. We favor free trade. But it must not mean that more and more of our workers have to work more and more of their days for free to match sweatshops overseas.

We should strengthen our immigration laws to prevent the importation of foreign wages and working conditions. We should make it illegal for employers to lay off Americans and then fill their jobs by bringing in workers from overseas. Any U.S. employer who wishes to hire from abroad -- even for temporary jobs -- should have to recruit U.S. workers first. And we should end the unskilled immigration that competes with young Americans just entering the job market.

Tenth, Congress should take long overdue direct action to improve incomes and benefits.

We can and must raise the minimum wage. The present level of four dollars and twenty-five cents an hour is a national scandal -- not even enough to lift a family out of poverty. We should start now by raising the minimum wage to \$5.15 an hour, and restore as much as possible of the purchasing power it has disgracefully lost in recent years. No American who works for a living should have to live in poverty.

We can and must strengthen the Earned Income Tax Credit, not reduce it.

President Reagan called it the "best anti-poverty, the best pro-family, the best job creation measure to come out of Congress." Ronald Reagan was right, and the Republican Congress should heed his words.

Health care, too, can and must be a priority again. I for one will not permit health care to become the forgotten issue. It is all too present for Americans who have to pay the bills and face the fears every day. My abiding goal is still health security for every citizen. The reform I have introduced with Senator Kassebaum is a significant step with broad bi-partisan support. It could be enacted quickly -- if we can overcome the obstruction of a handful of Republican Senators doing the bidding of insurance industry profiteers. Our reform is simple justice: workers who change their job or lose their job should not lose their health insurance too.

Finally, we must secure the safety and sanctity of pensions. They must never become a corporate slush fund or a piggy bank for risky investments. Here again, the Republicans, instead of building more protections, seek to undermine those that already exist. The Republican Congress proposes to let unscrupulous corporations raid workers' pension funds, and they even make the preposterous claim that they're closing a tax loophole. This is odd, coming from those who previously never seem to have met a tax loophole they didn't like. In fact, it will cost the government nothing to protect pension funds against corporate raiders and unscrupulous investment managers.

We should create new incentives to extend pension coverage to all workers, not just the 48% who are currently covered, by establishing a new class of multi-employer, portable pension accounts.

We can also put workers' pension funds to work to close the income gap. We should maintain and strengthen the incentives which the Republicans seek to eliminate that can direct the \$4.5 trillion currently in pension funds to investments that will mean more and better jobs here in America. The AFL-CIO Investment Trust is now committing half a billion dollars a year to housing and economic development projects. Their rate of return is highly competitive, and there are similar examples across the country. The issue here is as plain as the investment opportunity. The pension funds of American workers should be financing economic growth at home, not the export of American jobs overseas.

Of course, no economic program, no matter how far-reaching, can resolve all the hurts or fulfill all the hopes of a nation. But all too often we forget the link between values and economics. We lament the loss of traditional "family values," yet we forget that the golden age we look back to was also a time when family incomes were steadily rising. We berate Hollywood for glorifying sex and violence, yet we worship the profit motives that generate the very films we condemn. We hear voices calling for the end of affirmative action, or worrying that our society has

become too diverse to survive, but we ignore at our peril the fact that those voices are driven by fear of economic loss. We worry about the loss of patriotism, yet our tax policies encourage corporate decisions that are plainly anti-American.

If we really believe in family values, then let's do a better job of valuing families. Let's change policies that threaten their jobs, their health care, and their pensions. Let's help people educate their children and care for their parents. If we really want to put the "United" back in the United States, then let's do all we can to expand the pie and provide economic opportunity for all, instead of letting the nation fragment into two separate and unequal factions of haves and have-nots.

We will only make things worse by pursuing nostrums and illusions -- whether they take the form of social reaction, or the new deception of the flat tax. The flat tax is a cynical response to the income gap -- offering but perhaps not even delivering a small tax cut as the only raise most workers will get -- while surely providing a shameful windfall for those who already have the most. The Forbes flat tax gives new meaning to Franklin Roosevelt's indictment of the Republicans as the party of the privileged. The only family value the Forbes flat tax would enhance is the net worth of the Forbes 400.

We are coming to the close of what has been called the "American Century." It has been an extraordinary era in which we have conquered imperialism, fascism, and communism abroad. We have wrestled with racism, sexism, poverty, depression, crime and other enemies within. We have struggled, often imperfectly, yet with great success, to build a fairer and freer society. And we have wisely used some of our resources to help other nations achieve and protect their own democratic ideals. The danger is that the achievements and the vision that made this possible are fading too quickly into the forgetfulness of history, and that we are becoming a nation fragmented between rich and poor, its values diminishing as its standard of living is devalued.

We can and must end the income gap in America. It will require a new Progressive Era which will come, just as the first one did, just after the forces of reaction think they have achieved their dominance. We can and must restore true progress in America. That is our duty as progressives. That is the defining mission of the Democratic Party. And in my view, that is the only way we can win -- and the only way we will deserve to win -- in 1996.