DOWNSIZING TO CORPORATE ANOREXIA WHILE DISMANTLING THE MIDDLE CLASS: ARE WE IN DANGER OF RECREATING THE 1920S?

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ABSTRACT

Corporate downsizing has run rampant on the American scene during the 1990s. Indeed, *Business Week* claimed it had become a fad. Ironically, the new "lean and mean" look did not apply to CEO compensation packages. More critically, corporate downsizing hurt middle class purchasing power. The Big Lie that emerged from this was that America could dismantle the middle class and have a booming economy. Much of this reasoning sounds, sadly enough, like the thinking so prevalent in the 1920s.

In September of 1995 Chemical Bank of New York announced a merger with Chase Manhattan Bank. Wall Street was jubilant, young brokers were seen giving "high fives," and 12,000 people lost their jobs. A short time thereafter Secretary of Labor Robert Reich was moved to ask: "What's wrong with this picture?" "Why are we celebrating?"[1] The Secretary understood full well exactly what had taken place: a major slice of the work force had been sacrificed in the name of efficiency — and particularly in the name of larger profits. The scene had been played out many times in the 1980s and 90s and thus now seemed terribly repetitious or redundant. Still, one segment of society was clearly comfortable in celebrating the pain of another segment.

Secretary Reich, in his Labor Day Address of 1995, made reference to this problem and focused, particularly, on the ongoing dismantling of the laboring middle class. He pointed out that median wages had been falling and were continuing to fall. He also noted that the purchasing power of the minimum wage was at its lowest point in forty years. [2] Felix Rohatyn, New York financier, stated the problem more dramatically by observing that an America that once included seventy percent of its population in the "middle class," was now a society that was excluding seventy percent from once customary affluence. [3] Obviously, profound change was underway.

In many respects the new economic scenario is unfortunate and frightening — whatever name we choose to give to it. It might be labeled "Response to International Competition," or perhaps "Long Overdue Downsizing." However, the most insightful label is "Financialization," a term used by Kevin Phillips in *Boiling Point.* By financialization Phillips means some combination of the following: cutting jobs to raise corporate profits, pumping up CEO salaries, tax breaks for capital gains, corporate welfare, and declining wages. [4] Democratic Congressmen Richard Gephardt puts it this way, "Corporations have become chips in a casino game, played for high stakes by people who produce nothing, invent nothing, grow nothing, and service nothing."[5]

In many respects the new economic environment is reminiscent of the 1920s when leaders in corporate boardrooms and Wall Street seemed to have everything their way. Productivity was up, the Great Bull Market was rampaging and dividends were rising. Better yet, gains in productivity did not have to be passed along to workers as workers were readily kept in their place and union activity was beaten down by the courts. [6] This was truly a businessman's dream — reinforced by White House occupants who believed that "the business of America was business." If only the Great Depression of the 1930s hadn't followed....

The lesson of the 1920s should be clear; there can be no prosperity in America, worthy of the name, without broad-based middle class buying power.

The Big Lie that we must now listen to suggests that we can dismantle the middle class and build a better America simultaneously. What we are really building is not a better America but a better Honduras or Belize. The limited number of winners, apparently, hope to take the money and run — to rural or exurban haciendas surrounded by walls and manned by armed guards while the masses wait patiently outside celebrating the new economic order.[7]

In light of the aforementioned, this paper seeks to address two questions: (1) How did we get to where we are? (2) What is to be done?

HOW DID WE GET TO WHERE WE ARE?

Paul Kennedy writing in *The Rise and Fall of Great Powers* argues cogently that imperial overstretch is often the beginning of a great nation's downfall.[8] If Kennedy is only half right than surely the United States became a candidate for a fall after half a century of policing the globe, particularly in light of the extraordinary costs involved. Whether we speak of budget deficits generated by our military posture and operations, or internal strife resulting from foreign policy debate, the cost has been high. Arguably, the United States has been weakened.

Indeed, in fighting the Cold War we may have spent the USSR into bankruptcy, we may have contributed to the demise of Eastern regimes, we may have defeated communism — but all of this came at a high price. (It is commonplace information that during the Reagan years the federal budget deficit ranged from $100 billion to $200 billion annually.)

While the United States was busy winning the Cold War, Japan, South Korea, and a host of other nations were mounting an extraordinary challenge to our dominant role in world business, trade, and manufacturing. The success of this foreign competition in electronics, automobiles, shoes, clothing, etc. appeared almost invincible at times — at least until the current economic troubles surfaced in Japan, South Korea, Taiwan, Hong Kong, and Singapore.

In response to this global economic challenge American manufacturers accelerated their movement into the Sunbelt; but, more importantly, looked to Mexico. On a thin strip of land stretching 1,500 miles along the Mexican border from California to Texas, U.S. firms have built 1,800 plants employing over 500,000 workers between 1965-1992.[9] U.S. plant managers can purchase homes in southern California or Texas, commute short distances to operate their foreign facilities, and return home to the United States every evening for dinner. To date, General Motors, Ford, IBM, Rockwell, and General Electric are but a few on the names of the Fortune 500 firms that have meandered South of the Border. Obviously, the federal Tax code and the NAFTA agreement will further encourage the move south.

Another familiar response has been "downsizing" — as a means of becoming more cost efficient. This activity has taken on avalanche proportions since early 1991; and, at times, has appeared disingenuous when coupled with soaring levels of compensation to CEOs and senior vice-presidents. Then, again, sincerity and consistency are not balance sheet categories.

Table 1 SUBSTANTIAL DOWNSIZINGS 1991- 1994

COMPANY	STAFF REDUCTIONS
IBM	85,000
AT&T	83,500
General Motors	74,000
Sears	50,000
Boeing	30,000
NYNEX	22,000
Hughes Aircraft	21,000
GTE	17,000
Martin-Marietta	15,000
DuPont	14,800
Eastman Kodak	14,000
Phillip Morris	14,000
Proctor and Gamble	13,000
Phar Mor	13,000
Bank of America	12,000
Aetna	11,800
GE Aircraft Engines	10,250
McDonnell Douglas	10,200
Ford Motor	10,000
Xerox	10,000
Pacific Telesis	10,000
Honeywell	9,000
Total	473,450

Source: *Business Week,* May 9, 1994, 61. (On January 3, 1996, AT&T announced the elimination of another 40,000 jobs over the next three years.)

What is particularly interesting about downsizing is the extent to which it has become a fad, in the eyes of *Business Week* and many other observers.[10] That is, firms are cutting employees when they are in trouble, when they anticipate trouble, or when they fear being out of step with other blue chip companies. Mob psychology has taken over and many among the Fortune 500 have become a herd of independent thinkers!

In concert with downsizing have come some extraordinary pressures on those who retain their positions. Stories of 60, 70, and 80 hour weeks now seem trite, redundant, and boring. An exception, perhaps, appeared in an AP wire service story for November 4, 1995 concerning Santo Alba, a 55 year old metal shop foreman for Raytheon in Boston. Already working 70 - 80 hours a week, on May 15, 1995 he was told his workload would again increase. That same day he put his head into a circular saw and was decapitated. Beyond these pressures, pensions are being "redefined" and health care costs are being "passed along." The ideal salaried employee of the mid 1990s has no family and is comfortable living at the office.

All of this aforementioned economic restructuring of the 1980s and 90s, to no one's surprise, found comfort and support from the U.S. Congress and the White House. Where Congress is concerned, Political Action Committees (PACs) have the control they have long sought; and, accordingly, more and more Congressmen and Senators are resigning either out of embarrassment or disgust — some of the latest being Democratic Senators Bill Bradley of New Jersey and Sam Nunn of Georgia who announced their resignations in September and October of 1995; Senator Nancy Kassenbaum of Kansas announced shortly thereafter — followed by the startling addition of ten more senators.

Presidents Reagan and Bush, as reasonably conservative Republicans, were openly comfortable with most anything the business community sought. President Reagan's popularity stemmed from a burgeoning economy and a renewed sense of patriotism and social conservatism that he could articulate and symbolize. President Bush achieved extraordinary acceptance for a time by continuing the symbolism and leading the nation through the highly popular Gulf War. (Bush enjoyed a 91% approval rating in early 1991.) These were the matters the nation cared about, and thus the shifting corporate climate or changes in the corporate tax picture were next to irrelevant — certainly not newsworthy.

The one-time Populist Bill Clinton might have been more interested in this newly emerging economy and dramatically shrinking middle class — especially since he focused on the economy in his 1992 campaign. (Famous sign in Clinton campaign office: IT'S THE ECONOMY STUPID!) Yet, he has been remarkably quiet on the subject and prefers to point to the growing number of jobs, the low rate of inflation, and a healthy GDP (gross domestic product) as proof of the health of the American economy. Robert Reich, cited earlier, has a clearer picture of what this new economic structure means and periodically says so. Indeed, even during the presidential campaign of 1996, Reich continued to hammer away at growing economic inequality — a luxury the Clinton campaign could afford in light of inept Republican opposition. (Clinton, of course, by November of 1996 had become a reasonably conservative Republican delighted with the status quo.)

Thus, an extraordinary transformation of the American economy has taken place and few have seemed to notice — except for that portion of the middle class that had been asked to pick up the check. The Congress and the Executive branch pretend to be blissfully unaware of a problem with the economy.

Of late, however, more are beginning to join the early voices of alarm that included Bennett Harrison and Barry Bluestone from academe, Donald Barlett and James Steele from the *Philadelphia Inquirer*, and Kevin Phillips, independent political observer.[11] For example, Katherine S. Newman interviewed 150 ordinary people in the suburb of "Pleasanton" and chronicled their discontent, frustration, and anger over their present conditions and future possibilities in *Declining Fortunes*. [12] Clifford Cobb, Ted Halstead, and Jonathan Rowe attack misleading or useless economic statistics in the September, 1995 issue of *The Atlantic Monthly* in an article entitled: "If the GDP Is Up, Why Is America Down?" [13] They note that, "The nation's economic experts inhabit a statistical Potemkin village that hides the economy that Americans are in fact experiencing..." [14]

Still other voices include Michael Lind in *Harper's Magazine* in June of 1995 in a piece entitled, "To Have and Have Not: Notes on the Progress of the American Class War," [15] a truly frightening article that is not long on subtlety. John Cassidy, writing in the *New Yorker* for October 16, 1995, identifies international trade, technology, the decline of labor unions, and immigration as the culprits that killed the middle class. [16] A self-financed presidential candidate and wheel magnate from the Midwest by the name of Morry Taylor, who preformed well in the 1995 Iowa primaries, has argued that what America needs most of all are hundreds of thousands of jobs that pay between $10 and $15 per hour. *U.S. News and World Report* for January 22, 1996 features "Shafted: Workers Take it On the Chin;" a story that focuses on workers left behind and the simultaneous quantum leap in wealth and income at the top. [17] In the 1996 New Hampshire primary Republican Pat Buchanan built his campaign around the endangered blue collar worker — he was quickly attacked by the press for conducting a campaign based on fear. In any event, these were two paragraphs cite sufficient evidence to indicate that some social critics and political pundits are beginning to wake up.

Parenthetically, by 1997 corporate downsizing had placed the United States in a stronger competitive position than it had been in for some time vis-a-vis Europe and Japan. The cost of achieving this, however, seemed to be placed almost exclusively at the door of the American worker and the middle class. Furthermore, continuing pressure from Wall Street seemed to inspire a second wave of downsizing in 1997.

Table 2 TOP TEN JOB CUT ANNOUNCEMENTS OF 1997

COMPANY	STAFF REDUCTIONS
Kodak	10,000
Woolworth	9,200
Citicorp	9,000
International Paper	9,000
Levi Strauss	6,400
Fruit of the Loom	4,800

Whirlpool	4,700
Stanly Works	4,500
Apple Computer	4,100
First Bank System	4,000
Total	65,700

Source: *The Wall Street Journal*, November 13, 1997, 2.

The chilling possibility presented by the second wave is the prospect of a third or fourth wave.

WHAT IS TO BE DONE?

The problems described in this essay have no quick and easy solutions: international economic realities will continue to change but global competition will not disappear, and human greed is unlikely to diminish. At the same time, there is some possibility that mindless downsizing will soon begin self-correcting, particularly if areas such as new product development, growth, and customer service begin to suffer. Ironically, then, the corporate herd that galloped so hard in one direction, may simply reverse direction. And, of course, CEOs who were paid bonuses for downsizing may now receive bonuses for rightsizing. For example, as early as May 28, 1996, AT&T, IBM, Xerox, Boeing, and Sears announced hiring programs. These firms will hire roughly 1/5th of the number they laid off. [18] If you assume the new and younger workers would earn about half of their predecessors, then the rehiring would generate roughly 1/10th of the buying power previously lost. What is to be done in the meantime?

First, consider political leadership that can look beyond the Beltway and has some idea what is really taking place in the current economic environment. Put another way, "leading economic indicators," "averages," and unemployment data conceal at least as much as they reveal.

Second, pursue tax reform with a particular eye to eliminating rewards for those moving production out of the country.

Third, encourage both public and private employers to institute jobs sharing in place of layoffs. Kellogg's, Sears, Standard Oil, and the Hudson Motor Car Company practiced this in the 1930s, Volkswagon (Europe) instituted this in 1993, and the French government in March of 1998 announced they were reducing the official work week from 39 to 35 hours in order to address the nation's "intractable 12 percent unemployment rate."[19]

Fourth, utilize moral suasion that calls upon business and industrial leaders to consider Robert Reich's plaintive question: "...don't companies have a responsibility to keep workers employed while profits are rising?" [20] (Moral suasion campaigns have proven surprisingly effective in changing some corporate behavior in recent years, primarily because CEOs find it embarrassing when members of their social circle raise hard questions at the country club on Saturday night.)

Fifth, resist efforts to raise the retirement age to 67, even though such action may be required to save the Social Security system some time within the next few decades.

Sixth, recognize that opens borders have an impact on wage rates. Put another way, if you could "globalize" the minimum wage, the global minimum wage might well be 85 cents per hour.

Seventh, support the efforts of the reformed and revitalized elements in organized labor to challenge the tidal wave of union busting and worker "givebacks." The organized percentage of the labor force currently is "barely more than 10%." [21] Unions have to block declining real wages in the face of rising worker productivity.

Eighth, imagine a world in which Alan Greenspan, Chairman of the Federal Reserve, can look beyond the interests of bond holders — or perhaps even stop celebrating the absence of wage increases. Ironically, Alice Rivlin, Vice-Chair of the Federal Reserve, recently spoke of the need to understand the current economy from the bottom up as well as from the top down. She emphasized the extent to which many workers and single parents were doing poorly in this allegedly great economy, and then proceeded to tear into the reporters present for telling only half the story. That is, reporting the readily available positive picture, but failing to dig for the harder to find negative story.[22]

In conclusion, the author has only limited confidence in the suggestions put forth here. Yet, it is worth remembering that the extraordinary political stability that this nation has enjoyed over the past 200 years has been dependent, some would argue, on the existence of abundance or the material well-being of the many. In brief, there is little to gain from recreating the 1920s.

NOTES

1. Secretary of Labor Robert Reich's "Labor Day Speech"for 1995 broadcast on C-Span.

2. Ibid. Author's Note: Unfortunately, the surge of women into the work force has not enhanced average wages as women currently earn 85 to 95 percent as much as men. *Compensation Survey, 1995*, U.S., Bureau of Labor Statistics.

3. Cited in A.M. Rosenthal, "Real Revolution Stuns Working-Middle Class," *New York Times*, January 6, 1995.

4. Kevin Phillips, *Boiling Point* (New York: Random House, 1993), 204. See also by Kevin Phillips, *The Politics of Rich and Poor* (New York: Random House, 1990) and *Arrogant Capital* (Boston: Little Brown, 1994.)

5. Cited in Phillips, 85.

6. See Robert Sobel, *The Great Bull Market* (New York: Norton, 1975.)

7. This prospect is raised by Michael Lind in "To Have and Have Not: Notes on the Progress of The American Class War," *Harper's Magazine*, June 1995. While the possibility of class warfare in America has always been difficult for all but radical scholars to imagine, it does seem that the ability of audiences to cheer wildly for the deaths of the wealthy in the 1998 version of "The Titanic" may be siginificant.

8. See Paul Kennedy, *The Rise and Fall of Great Powers* (New York: Random House, 1987)

9. Donald L. Bartlett and James B. Steele, *America: What Went Wrong?* (Kansas City: Andrews and McMeel, 1992), 35

10. John A. Byrne, "The Pain of Downsizing," *Business Week*, May 9, 1994, 61. To be sure, other institutions in society are also shrinking. For example, the number of Federal Civilian Employees has dropped

from 3,085,000 in 1990 to 2,723,000 in 1997; and the number of Military Personnel on Active Duty has declined from 2,127,000 in 1975 to 1,440,000 in l997. *U.S. News and World Report*, May 19, 1997.

11. Bennett Harrison and Barry Bluestone, *The Great U-Turn: Corporate Restructuring and the Polarizing of America* (New York: Harper-Collins, 1988) See earlier citations for Barlett and Steele, and Phillips.

12. Katherine S. Newman, *Declining Fortunes* (New York: Oxford University Press, 1994.)

13. Clifford Cobb, Ted Halstead, and Jonathan Rowe, "If the GDP is Up, Why is America Down?" *The Atlantic Monthly*, September, 1995.

14. Ibid.

15. Lind, cited earlier.

16. John Cassidy, "Who killed the Middle Class?" *New Yorker*, October 16, 1995, 113-124, 121.

17. "Shafted: Workers Take It on the Chin," *U.S. News and World Report*, January 22, 1996.

18. *Lancaster Intelligencer*, May 29, 1996

19. Thus far the concept of "job sharing" has received scant attention although some colleges, universities, and seminaries have experimented with a husband and wife sharing one job. See *Lancaster Intelligencer*, March 2, 1998.

20. Robert Reich, cited earlier.

21. *The Wall Street Journal*, February 8, 1996.

22. Alice Rivlin speaking at the New Jersey Institute of Technology on November 26, 1997, broadcast by C-Span.