I. PRESIDENTIAL ADDRESS

Improving Policies and Approaches to Employment Relations: Protecting Workers and Their Families from Economic Insecurity

John F. Burton, Jr.
Rutgers University

My concern is four sources of economic insecurity for workers and their families: (1) loss of wages resulting from unemployment; (2) lack of adequate income during retirement; (3) inadequate medical care for non-work-related health problems; and (4) insufficient medical care and income to deal with the consequences of workplace injuries and diseases. I will provide a brief historical overview of the various approaches that have been used in the United States to deal with these economic problems and then speculate about future solutions to the problems.¹ I wish I could promise an uplifting analysis, culminating in a clear set of compelling solutions for the twenty-first century. Alas, the subtheme of my analysis of recent developments can be described as the Anatomy of Melancholy.²

The 1880s through the 1920s

The origins of these sources of economic insecurity can be traced to the last few decades of the nineteenth century, when the nation rapidly industrialized and much of the population moved from farms to urban areas. Industrialization and urbanization were accompanied by wide fluctuations in unemployment. Workers without jobs were especially vulnerable because they could not rely on homegrown food to tide them over during downturns.

In theory, labor markets were competitive, and employer needs and worker desires interacted to determine optimal working conditions. In practice, la-
bor markets generally did not correspond to this model on the demand or the supply sides. Some markets were monopsonies—where the limited number of employers had superior bargaining power. And many labor markets had “excess supply” because of the large numbers of unemployed workers, many of whom were immigrants. As a result of these failures of the theoretically beneficial attributes of the competitive labor market, workers often were subject to onerous working conditions.

Several approaches to deal with these unfavorable by-products of industrialization were used beginning in the 1880s and continuing into the Progressive Era (1900–1920) and the Period of Normalcy (1920–1929). For shorthand in this address, I will refer to the entire 50 years as the Progressive Era.

One approach involved workers who prized their independence and who relied on individual savings and skills to cope with the adverse conditions. Many workers were overwhelmed by the magnitude of the economic problems, however, and the country soon turned to other approaches.

A second approach was collective action by workers, which was an effort to offset the superior bargaining power of employers by unions demanding higher wages and benefits that would ameliorate the economic insecurity. Unions, however, were generally unsuccessful in their efforts to negotiate with employers, in part because there were a number of incidents of labor violence that caused employers and much of the public to view unions as a “menace.”

A third approach to dealing with economic insecurity was government regulation. By the beginning of the twentieth century, twenty-eight states had child labor laws that regulated matters such as the maximum number of working hours, and sixteen states limited work hours for women. Most northern states also passed laws mandating sanitation and safety in factories.

A fourth approach to offsetting adverse working conditions also involved the government, namely, the creation of social insurance programs. Workers’ compensation statutes, which provide cash benefits and medical care for workers disabled by work-related injuries or diseases, were enacted in most states between 1914 and 1920. Prior to workers’ compensation, workers injured on the job had to sue their employers in negligence suits, a remedy that was condemned by most commentators. Workers’ compensation tried to deal with the deficiencies of the common law by creating a no-fault system (which aided workers) with specified benefits (which was supposed to reduce litigation) and with the elimination of tort suits (which aided employers).

A fifth approach to adverse labor market conditions was adopted by a small but influential group of progressive employers that began to voluntarily improve working conditions or indemnify workers for adverse outcomes. This strategy is generally identified with welfare capitalism. The antecedent to welfare capitalism in the Progressive Era was “welfare work,” a term coined
by John R. Commons that he defined as “all those services which an employer may render to his work people over and above the payment of wages.” Welfare work consisted of four categories of benefits: (1) programs that promoted health and safety at the workplace, such as guards on machinery; (2) activities that focused on health and safety in the workers’ homes, such as cooking classes; (3) educational, recreational, and social activities, such as noon-time dancing; and (4) financial benefit plans, such as pensions, sickness benefits, and life and health insurance. By the 1920s, welfare work had evolved into a more comprehensive strategy by employers known as “welfare capitalism,” which included welfare benefits, but also formal personnel programs and mechanisms for employee voice (through representation plans that avoided unions as the larynx for the voice).

The progressive employers who were proponents of welfare work and welfare capitalism had several motives for providing benefits. Some employers were motivated by moral obligations, and rather than provide higher wages—which workers might spend in brothels and dance halls—paternalistic employers provided meals, supervised recreation, and health facilities. Also, employee benefits such as pensions tied the worker to the firm, which employers assumed would increase employee loyalty and productivity. Employers also provided benefits in order to fend off union organizing activities and to undermine government efforts to protect workers from economic insecurity.

During these decades prior to the 1930s, the notion that government was not the appropriate source of protection for workers also resonated with much of the labor movement. Indeed, until his death in 1924, Samuel Gompers, president of the AFL, was vice president of the National Civic Federation, which was “the leading organization of politically conscious corporate leaders.” This alliance with employers was consistent with the unions’ strategy of voluntarism, which eschewed government support and endorsed collective action by workers as the preferred means to achieve labor’s goals.

The emergence of welfare capitalism among progressive employers during the Progressive Era has been ably analyzed in recent studies; however, the provision of benefits by employers was not endorsed by important employer organizations, most notably the National Association of Manufacturers. Moreover, most employers did not provide significant benefits to their workers. Thus, a comprehensive survey of private sector employers in 1929 indicated that a maximum of 14 percent of workers were covered by pension plans, and the total cost of all employer-provided benefits in 1929 represented only 1.3 percent of payroll.

Nor did workers receive much protection from the government to deal with the various sources of economic insecurity. The aversion by employers and, in most instances, labor to government provision of benefits helps explain
the failure to enact social insurance programs in addition to workers’ compensation during the 1910s and 1920s. Thus, at the end of the half-century spanning 1880 to 1929, workers and their families were almost entirely dependent on their own resources to deal with the economic insecurity that resulted from industrialization.

The 1930s

The U.S. economy plunged into a severe depression in the 1930s. The unemployment rate peaked at almost 25 percent in 1933 and remained above 14 percent until 1941. Most employers were overwhelmed by the adverse economic conditions, and most company-provided benefits were cancelled in the early 1930s.7

The Depression also significantly affected unions. The futility of trying to achieve economic gains for workers in a dysfunctional labor market led most union leaders to abandon the policy of “voluntarism,” in which government action was considered a threat to the benefits that unions could provide their workers, and to embrace government intervention in the labor market.

The government intervention in the 1930s included the first significant regulation of employee benefits by the federal government. A leading example is the Fair Labor Standards Act, which established minimum wages and overtime pay requirements.

The federal government also established several significant social insurance programs in the decade, including the Social Security Act of 1935, which provided old age and survivors (OAS) benefits. The Act also established the federal-state unemployment insurance program.8 Another consequence of the changing political environment was the enactment of the National Labor Relations Act (NLRA) in 1935, which protected the rights of workers to organize, to bargain collectively, and to engage in strikes.

The 1940s to the 1980s

Employer payments for employee benefits surged from 1.9 percent of payroll in 1940 to 13.5 percent in 1980 and then grew more slowly, until reaching 14.2 percent of payroll in 1990. The increases began during World War II, when the economy was regulated to suppress excess demand through mechanisms such as wage controls, which limited increases in take-home pay but allowed employers to provide additional compensation as deferred income, including pensions. After the war, several major unions pressed for pensions, facilitated by the National Labor Relations Board’s decision that pensions were a bargainable issue. Pensions soon spread among other unionized and unorganized industries, and employer contributions for pensions increased from
1.5 percent of payroll to 7.5 percent between 1948 and 1980 before declining to 5.5 percent in 1990.

Part of the decline in employer contributions to pensions after 1980 can be traced to the enactment of the Employee Retirement Income Security Act (ERISA) in 1974, which established standards in all areas of funding, structure, and administration of the pension system. One aftermath of ERISA was a drop in new pension plans and an increase in terminations of plans. Another source of decline in the proportion of the workforce with pensions was the drop in union membership after the 1950s. This drop in unionization was in turn associated with a declining proportion of pension plans with defined benefits largely or solely financed by employers and an increasing proportion of pension plans with defined contributions that generally shifted some costs from employers to workers.

There was also a rapid increase in health insurance in the postwar period, with employer contributions increasing from 0.4 percent of payroll in 1948 to 6.8 percent in 1990. The increasing expenditures, however, masked a declining proportion of workers with health insurance provided by their employers after 1979. Part of the decline in health care coverage was due to the increasing importance of nonunionized employers.

The growth of employer payments for pensions, health care, and other employee benefits between 1940 and 1990 reflects in part a sixth approach to dealing with economic insecurity, namely, the use of tax incentives to encourage the provision of benefits at the workplace. The federal tax code was amended during World War II to clarify the favorable tax treatment of pension and welfare funds, and the increases in corporate and personal income taxes coupled with the deductibility of employer expenditures on employee benefits in the postwar period encouraged this approach.

The social insurance programs established during the 1930s expanded during and after World War II, with the employer contributions for these programs increasing from 1.4 percent of payroll in 1940 to 7.5 percent in 1990. Most of the growth was due to expanded coverage of workers and additional benefits provided by the Social Security program.

Efforts to establish new social insurance plans were generally unsuccessful during the postwar decades, however, most notable being government health insurance for the general population. An effort for a single-payer plan that might have served as a model for state-based reform was narrowly defeated in California in the mid-1940s. At the federal level, the Truman Administration failed to enact a health plan in 1949. Perhaps President Nixon proposed the most promising effort for a national health plan in 1971. The labor movement and leading Democrats opposed the Nixon plan, however, because they
favored a health insurance plan financed from a new payroll tax and general revenue, and that would have eliminated commercial insurers and made the federal government the single payer. The stalemate over the opposing plans resulted in no law being passed.12

The 1990s

The six-decade trend of increasing employer contribution rates on employee benefits reversed during the 1990s. Employee benefits dropped significantly, from 14.2 percent of payroll in 1990 to 11.0 percent in 2000.

Employer expenditures on retirement benefits dropped because the rise in the stock market caused many defined-benefit pension plans to be funded in excess of actuarial needs. The continuing increase in the prevalence of defined-contribution plans also helps explain the decline in employer costs for pensions.13

Employer contributions for health insurance also declined after 1995, in part reflecting a temporary victory in the battle to contain costs through the implementation of managed care. In addition, during the 1990s, some employers eliminated their health insurance plans, and many of the ongoing plans shifted some of the costs to employees through increased deductibles, copayments, and employee contributions toward premiums.

Employers’ contributions for social insurance plans also declined during the 1990s, from 7.5 percent of payroll in 1990 to 7.1 percent in 2000. This decline resulted from a combination of stable employer contribution rates to the Social Security program, coupled with declines in employer contributions to the unemployment insurance and workers’ compensation programs.14

Congress rejected the major social insurance initiative in the 1990s, namely, the Clinton Administration’s 1993–1994 proposal for health care reform. There were, however, several federal statutes enacted during the decade that inter alia regulated workplace health benefits. Who among us is not an expert on programs such as the FMLA15 and the HIPAA?16

The Twenty-First Century

What are the primary threats to economic security in the twenty-first century, and can the six approaches relied on in the last century to deal with these threats provide solutions to our current problems? The economy has changed in recent decades in ways that may make old remedies inapplicable to current problems. In particular, competition has increased in both product and labor markets as a result of deregulation of domestic industries and increased international trade under the banner of globalization.

Because of limited time, I will not devote attention to the problems resulting from the loss of wages resulting from unemployment17 or on the
deficiencies of medical care and cash benefits provided to workers disabled by workplace injuries and diseases. Instead, I will focus my attention on the sources of economic insecurity with the greatest costs.

One of these expensive challenges is the provision of adequate retirement income, which currently requires contributions from employers and workers of at least 15 percent of payroll and which is a figure that is likely to increase in the short run as suddenly underfunded pension plans are replenished and to increase in the long run as the baby boomers retire in coming decades.

The other source of economic insecurity that is already very expensive and will become increasingly expensive is the provision of medical care to workers and their families. Employers spent more than 6 percent of payroll on group health insurance in 2000. A recent study reported that premiums for job-based health insurance increased 12.7 percent from 2001 to 2002 and postulated “the nation may be facing many years of double-digit premium increases.” There are, of course, many expenditures on health care not based on workplace contributions. Overall, the nation spent 13.2 percent of gross domestic product (GDP) on health care in 2000, a figure that is predicted to account for 16 percent of GDP by 2010 and as much as 38 percent of GDP over the longer term.

How will the six approaches to dealing with economic insecurity cope with the expenses of retirement income and health care? One approach—workers relying on their own resources—is patently deficient to deal with health care needs. The average premium for group health insurance provided through the workplace in 2002 was $663 per month, or almost $8,000 per year, considering both employer and employee contributions. Moreover, an individual worker would probably be unable to purchase equivalent insurance at the same rate because of carriers’ concerns about adverse selection.

Reliance on individual workers to provide for the bulk of their own retirement income is also questionable, particularly for low-income workers who typically have limited resources when they retire. The governments in many states have only aggravated the problem of poor retirement planning by touting lotteries as the pathway to nirvana. The revenues from lotteries are a perverse form of regressive taxes that solve state budgetary shortfalls while promoting financial foolishness among the citizens.

A second approach of the twentieth century was collective action by workers. The main deficiency of this approach is that the unionized proportion of the private sector workforce has declined in the last fifty years from one-third to less than one-tenth. Moreover, even in some organized firms, unions have been forced to “give back” some of the retirement and health benefits paid for by the employers.

A third approach to providing economic security that was important in
encouraging employer payment for benefits is reliance on tax incentives. Although tax incentives to encourage employers to provide health care and retirement benefits are important, the decline in corporate and individual tax rates makes this a less effective tool for governments.26

A fourth approach to economic security is voluntary corporate provision of benefits. A primary rationale is that the benefits promote worker loyalty and longevity, which in turn increase productivity and profits.

I fear that an unfortunate permanent legacy of the 1990s is that economic incentives for corporate behavior were fundamentally changed. Financial awards for corporate management were more closely tied to the price of company stock, based on the theory that this would increase the alignment of financial interests between management and shareholders. The unintended consequence in some firms, however, was the irresistible urge for management to inflate short-term profits by short-term strategies, aided by dubious or even illegal accounting techniques, in order to artificially inflate stock prices. The time horizon for corporate planning appears to have shortened as a result, and I doubt that the reforms resulting from the Enron and other scandals of 2002 will appreciably correct the management myopia.

The increasing competition from deregulation and globalization has abetted the tendency of management to concentrate on short-term solutions as well as encouraging management to shift risk to others—notably workers. One manifestation of this new-age corporate strategy is the downsizing of permanent employees to only those who perform the “core” competencies of the firm, while relying on contingent workers or employees of other firms to perform “noncore” functions, such as maintenance or production or human resource management. Another manifestation of the emphasis on short-term gains is the shifting of risks of retirement and health care needs to workers. After all, who needs long-term and loyal employees when corporate planning is based on instant gratification?

There are, to be sure, some long-existing employers that continue to resist the addiction to short-term returns, and there are certainly younger firms that have adopted aspects of welfare capitalism and thrived. Unfortunately, these “progressive” employers do not appear to represent the dominant style of twenty-first-century management, and so reliance on employers to provide protection to workers against economic insecurity is problematic, at best.

If the four approaches to dealing with economic insecurity that I have discussed appear to have their limitations, what role is there for the remaining two approaches: social insurance and government mandates for the labor markets? There appears to be a compelling case for an expanded role of government in providing health care. Nonetheless, the thought of dealing with the rapidly deteriorating coverage and cost problems of our health care sys-
tem by placing primary reliance on employment-based health insurance appears ludicrous. Instead, we need to move beyond the six approaches used to deal with economic insecurity during the twentieth century in order to deal with the health care problems of the twenty-first century. Of course, I recognize that denouncing the solutions of the past does not provide a grand vision of what should now be done with our floundering health care system. I also recognize that better minds than mine have failed to provide that grand vision for a modern health care system that is also politically acceptable. And, for that matter, worse minds.

As for solutions for adequate retirement income, the short-run challenge appears to be the preservation of the crucial elements of the current employment-based system before better long-term solutions involving the government can be designed. The targets of current efforts to undermine the present system include the efforts to convert defined-benefit plans into less-expensive defined-contribution plans. Another target for retirement benefits is the old-age component of the Social Security program, where there are efforts underway to convert part of the benefits from a defined-benefit plan into individual investment accounts, which are essentially defined-contribution plans. Many of us in this room have experienced the joys of decades of appreciation of our investments in TIAA-CREF. Alas—we can now provide living testimonies to the downside of individual investment accounts. We can only hope that the recent experience with retirement accounts linked to stock market performance will deter efforts to partially privatize social security.

The threats to economic security among workers are thus increasing as we move into the twenty-first century, largely because of the looming cost increases for retirement income and medical care. The challenge for the next few decades will be to find the proper mix of the old and new approaches to providing economic security to workers and their families. This challenge is especially daunting because one of the primary “old” solutions to these problems—namely, benefits voluntarily provided by employers—appears unlikely to be of great value in the new millennium. Indeed, we seem to have come full circle in terms of employers’ interest in providing benefits to workers, with the current decade looking more and more like the early decades of the twentieth century. And so let me close on that subtheme of melancholy by welcoming you to the “new” Progressive Era.

Notes

address can be found in that chapter. I appreciate the contributions of Dan Mitchell to the chapter, but absolve him of responsibility for any errors of facts, analysis, or opinions in this address. I also appreciate the comments on a preliminary draft of this address provided by Bruce Kaufman and Paula Voos.

2. The Anatomy of Melancholy was written by Robert Burton (1577–1640), who opined, “All my joys to this are folly, / Naught so sweet as Melancholy.”

3. A few unions established their own employee benefit plans, including pensions. By 1930, union pension plans protected 798,700 workers, or 20.5 percent of total union membership.


5. The criticisms of the tort suits included the inadequate protection for workers, the expenses and delays associated with litigation, and the concerns among employers about the occasional high costs resulting from successful suits.

6. Bruce Kaufman properly criticized an earlier draft of this address as more or less equating welfare work and welfare capitalism. As he indicated, “Welfare work was an antecedent to welfare capitalism, but the latter was a later development and was much more broadly constructed in terms of component parts, its philosophy, and strategic intent and design.” The evolution of welfare work into welfare capitalism is examined in Burton and Mitchell (2003), as cited in note 1.

7. There was a resurgence of pension plans after 1932, although most of these new plans required employee contributions. Employer contributions for all types of employee benefits increased from 1.4 percent of payroll in 1930 to 1.9 percent of payroll in 1940.

8. These programs increased the employers’ contributions for social insurance from less than 0.1 percent of payroll in 1930 to 1.4 percent of payroll in 1940.

9. Between 1979 and 1992, the percentage of civilian, full-time, year-round workers who received health insurance through their employers dropped from 82 percent to 73 percent.

10. The additional benefits provided by the Social Security program in the postwar period included disability insurance for disabled workers and health insurance benefits, commonly referred to as Medicare, for persons 65 years or older and for disabled persons.

11. The Nixon plan would have required employers to pay 65 percent of the cost of the premiums for employees who worked at least 25 hours per week. The plan would have maintained private insurance carriers, and so gained their support. The proposal also received qualified support from some important employer organizations, including the National Association of Manufacturers.

12. By the late 1970s, organized labor for the first time embraced the idea of health insurance based on mandates for employers, but by then employer interest in provided benefits at the workplace had dissipated.

13. Employer contributions for pensions dropped from 5.5 percent to 3.8 percent of payroll between 1990 and 2000.
14. The drop in unemployment insurance costs largely reflected the declining unemployment rates from 1992 to 1999. The employers' costs of workers' compensation dropped from 2.2 percent of payroll in 1990 to 1.3 percent in 2000, reflecting both an improvement in workplace safety and a concerted effort by employers and carriers to constrict eligibility and reduce benefits.


17. Unemployment obviously was a major problem in the 1930s, but the improvements in macroeconomic policies in conjunction with the federal-state unemployment insurance program created in the Depression provide an adequate framework for dealing with the problem of unemployment. I recognize that we are currently experiencing a breakdown in the political system that has resulted in many workers exhausting their unemployment insurance benefits, that many workers do not qualify for unemployment insurance benefits because of their tenuous connection to employers, and that globalization is having a particularly severe impact on unskilled workers, and so I do not want to minimize this problem. Measured in financial terms, however, the unemployment insurance program has been costing employers only about 1 percent of payroll in recent decades, and so is a relatively small component of expenditures on economic insecurity.

18. I am aware of the deficiencies and strengths of the current workers' compensation programs, and could easily overwhelm you with possible solutions. Again, however, the workers' compensation program currently costs employers less than 2 percent of payroll, so I will focus my attention on other sources of economic insecurity with greater costs.

19. Employer and employee contributions to the OAS components of the Social Security program are more than 10 percent of taxable earnings, and employer contributions to pensions and profit sharing plans represent another 4 percent of payroll. In addition, there are employee contributions to employment-based retirement plans, as well as individual savings.

20. In addition to expenditures on group health plans, the combined employer and employee contributions on the health insurance component of Social Security are almost 3 percent of taxable wages.


24. Gabel et al., p. 145.

25. Even the employee contributions for group health plans provided by employers exceed the resources of many workers: the average premium paid by employees in 2002 for family coverage in firms with 10 to 199 workers was more than $200 per month. Gabel et al., p. 146.

26. The reduction in tax rates during the 1980s reduced the incentives for employers to provide such benefits, and one estimate is that these declining tax rates explain almost 20 percent of the decrease in the subsequent decline in private-plan coverage of young males.