
The Bargaining Climate

CWA Research Department
AT&T Bargaining Council, St. Louis
December 2007



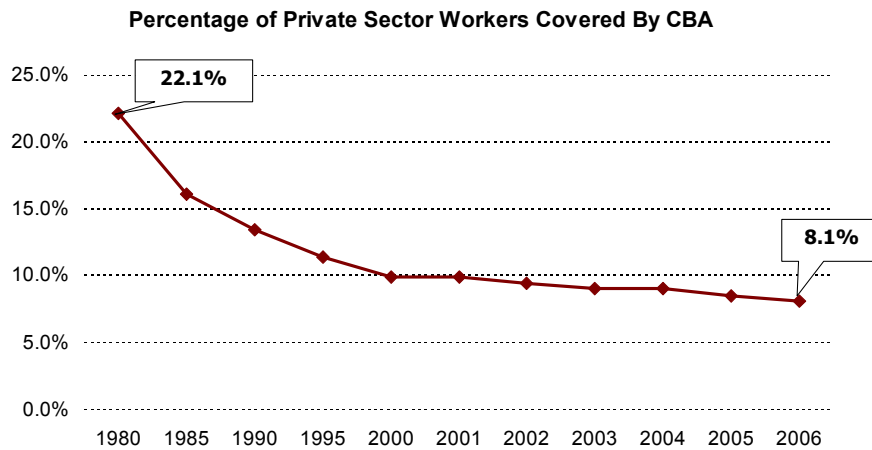
Good morning. I have been asked to talk today about the broad forces at work now as we contemplate negotiations with AT&T in 15 months.

Stormy Weather



Whenever I read the business section of a newspaper, I think it is pretty stormy out there. Sub-prime mortgage crisis. Foreclosures. \$100/ barrel oil. Offshoring. Record trade deficit. Health care costs skyrocketing. Low minimum wage. Increased poverty. You name it, there is a headline everyday that scares me.

Union Representation Down 64% Since 1980

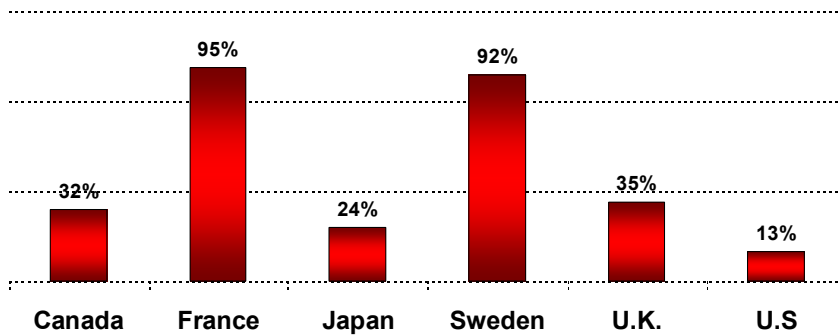


Source: Bureau of National Affairs, based on Current Population Survey

Part of the story – not all of it but a big part of it – is the weakening of the labor movement. In 1955, unions in the United States represented 35% of the eligible workforce. As late as 1980, we represented 22% of the private sector workforce, as you can see from this graphic. By 2006, it dropped to 8%.

The U.S. Lags Behind Other Countries

Percentage of Public and Private Sector Workforce Covered by Collective Bargaining

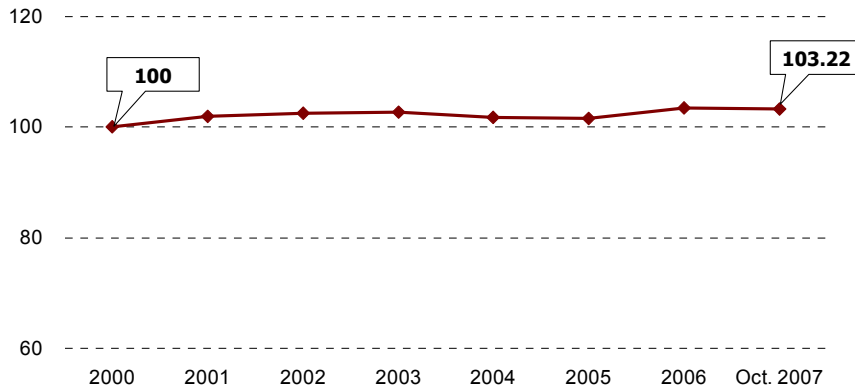


As you can see here, we fare rather poorly compared to other countries. Just north of our border in Canada, 32% of the workers are covered by a collective bargaining agreement. In France and Sweden, over 90% of workers are represented by trade unions.

What this means for American workers is “You’re on Your Own” – YoYo. In a book published in 2006, *All Together Now: Common Sense for a Fair Economy*, an economist from the Economic Policy Institute, Jared Bernstein, coined the term YoYo economics to describe the philosophy of those who want to destroy collective representation and promote a hyper-individualism. For 87% of all workers and 92% of private sector workers, this is a reality. Those workers do not have collective representation to promote their interests. In a capitalist society, that means that the people who most need solidarity, lack it.

Real Wage Gains Have Been Largely Flat

Private Sector Real Wages (2000=100)

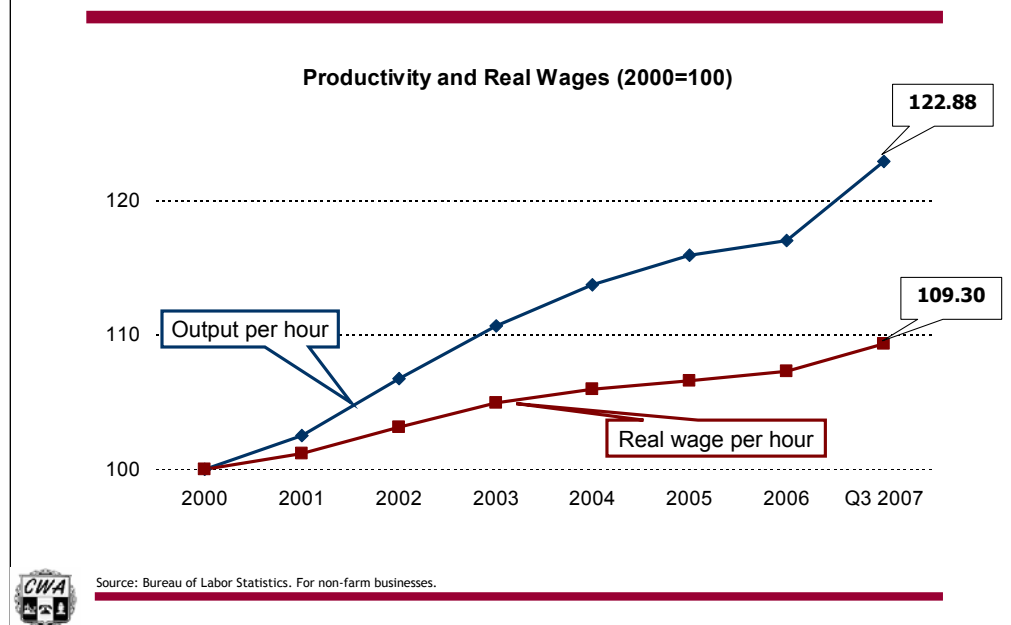


Source: Bureau of Labor Statistics

At least partially as a consequence of declining representation, wages have stagnated. Between 2000 and 2007, real wages – wages adjusted for inflation – have increased only 3.2% in the private sector.

This is a stunning graphic. There was a time when real wages increased across the board annually 1% - 2%. No longer. Real wages are increasing at a rate of one quarter to one fifth the rates of the 1950s, 1960s, and 1970s.

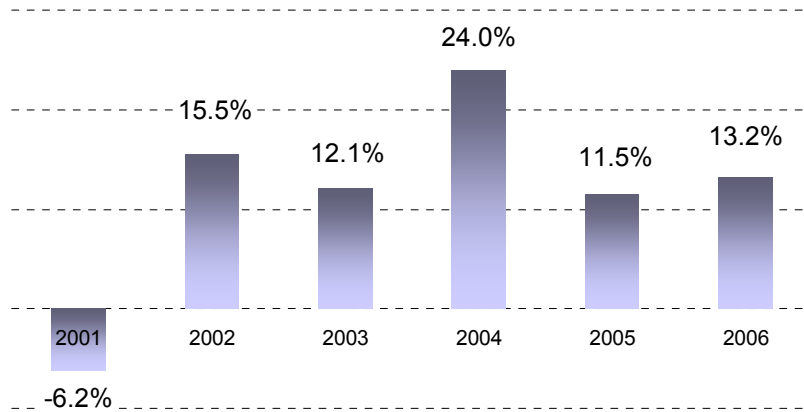
Employees Produce More But Aren't Paid More



Part of the issue has to do with the relationship between wages and productivity. In our parents' generation, say between 1950 and 1970, wages and productivity grew in tandem. As the economy became more efficient and we were able to produce more with less, then workers reaped some of the benefits. No longer. Real wages – public and private – have risen at half the rate of productivity growth.

Corporate Profits Have Soared

Annual Increase in Corporate Profits

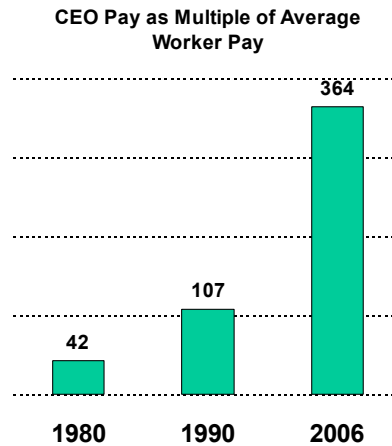


Source: Bureau of Economic Analysis, National Economic Accounts

So who benefits? Companies have done tremendously well in the last 6 years. Between 2000 and 2006, corporate profits have risen on average 15% a year. Companies have made money. Clearly, they are not passing on gains to their employees.

Executive Compensation is Out of Control

- Average CEO received \$10.8 million in 2006
 - 364x pay of avg. worker
- In 2006, AT&T Chairman and CEO Ed Whitacre received **\$60.7 million** in compensation



Sources: Institute for Policy Studies/United for a Fair Economy; company proxy statements. Average CEO at an S&P 500 company.

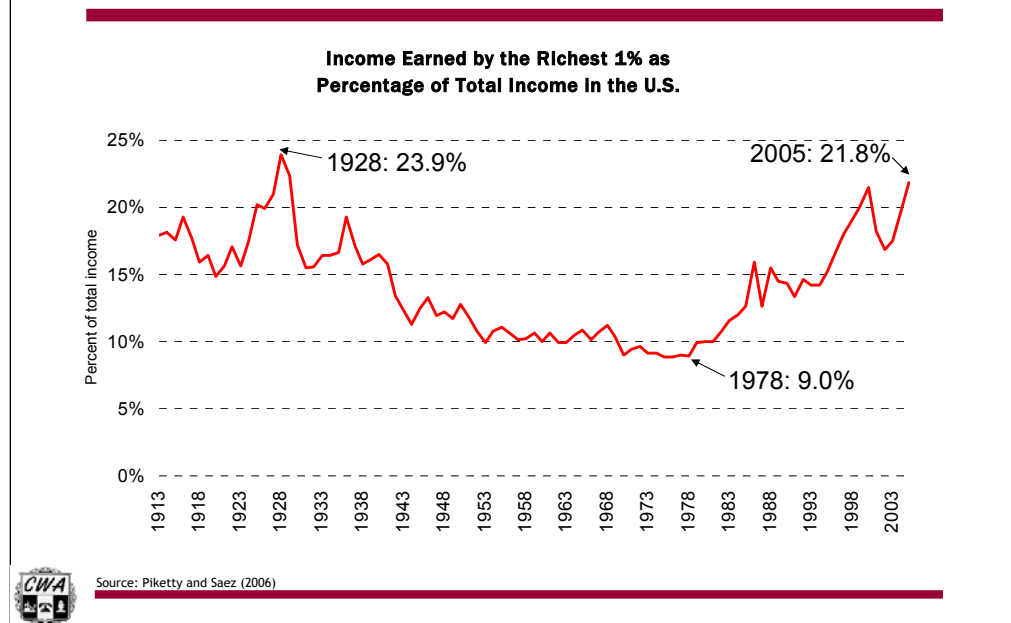
Instead, some of the economic surplus goes to top executives. In 2006, the average (Fortune 500) CEO made 364 times the pay of the average worker.

Think about these numbers for a second. 364 times the pay of the average worker. Most of us would justify top management making more than us. Twice? Three times? Five or ten times? Perhaps. But 364 times?

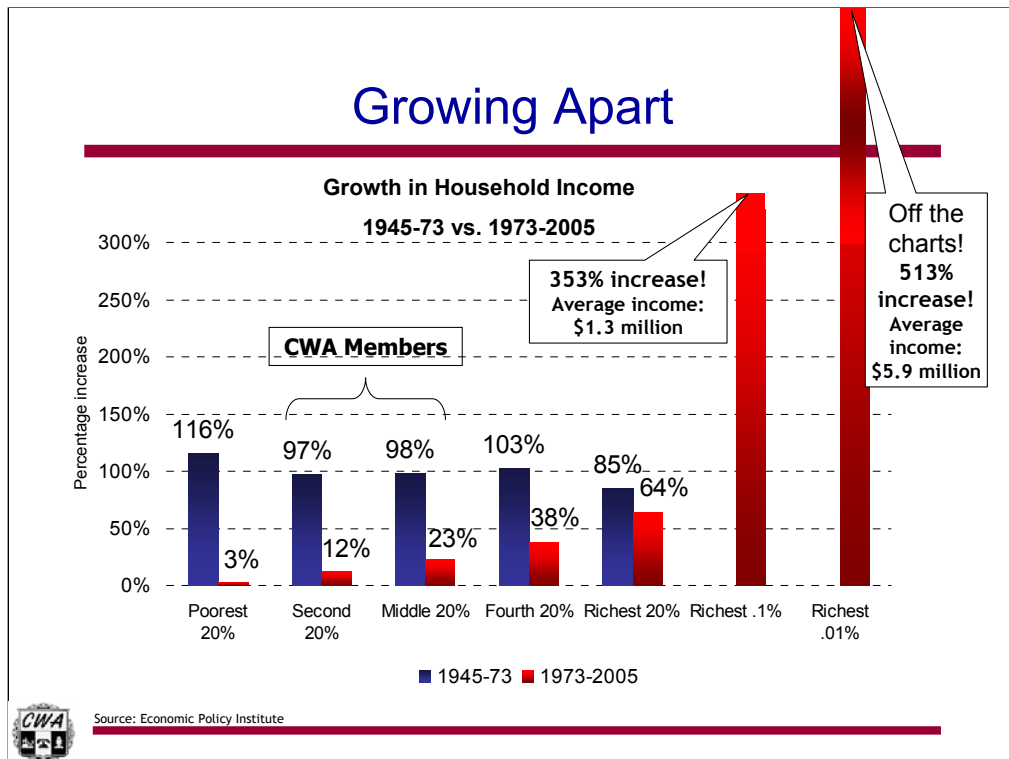
Let's put this in perspective. In 1980, the differential was 42. That is a lot of money. It has increased by a factor of 9 in 26 years. Are CEO's 9 times more productive than they were 26 years ago?

At AT&T, Ed Whitacre received over \$60 million last year. That translated into almost 6 times the average CEO pay. In contrast, the current CEO Randall Stephenson made a modest \$14.4 million.

Wealthiest Families Prosper as Never Before



But it is not just the top executives at Fortune 500 firms that are benefiting. Look how the top 1% income earners have fared historically. This longitudinal analysis shows that the income received by the top 1% peaked in 1928 just before the Depression at 23.9% of all income. Think about that for a moment: the top 1% received almost 24% of all income. That number began declining in 1929. Why? The crash destroyed incomes at the top. The New Deal helped to raise incomes through Social Security and the minimum wage. It gave working people a set of rights so that they could bargain up their wages. The share of the top 1% continued to decline until the 1970s. Again, it was government policy and labor organizing that pushed that number down to a low of 9% in 1978. This still meant that 1% of the population earned 9% of the total income. But that number has risen since. In 2005, it reached levels almost equivalent to 1928: it reached 21.8%. 1% of the population received 21.8% of total income in 2005.



This is an interesting graph. This breaks down household income during two periods – 1945-1973 and 1973-2005. It looks at each quintile – 20% increment – by income and looks at how each fared.

Between 1945 and 1973, income rose across the board. For the poorest quintile, it rose 116%, for the second quintile 97%, for the third 98%, for the fourth 103% and for the fifth quintile 85%. That meant that household income rose faster for the poorest 20% than it did for the richest 20%.

In contrast between 1973 and 2005, the opposite happened. The poorest quintile saw household income rise just 3% in 32 years. The second quintile 12%. The third quintile 23%. The fourth 38%. The fifth and richest quintile saw household income rise 64%.

If growth in income was balanced between 1945 and 1973, it was severely unbalanced between 1973 and 2005. The richest quintile saw incomes rise 21 times faster than the poorest quintile!

To appreciate the unbalanced growth, examine the fate of the richest .1% and the richest .01%. The richest .1% saw household income increase by 353% while the richest .01% saw household income increase by 513%! Compare this to the rise in incomes of the bottom 20%.

The Risk of Retirement Security Increasingly Borne by Employees

- DB plans cut in half (private sector workers)
 - 1978: 41%
 - 2006: 20% [Increasingly, new employees have DC plans only]
- Some companies bargain to improve retirement security
 - GE - ad hoc increases for retired workers
 - UAW/GM pension improvements
 - AT&T national contract
- Others are ditching defined benefit (DB) plans and offloading risk onto employees
 - Verizon (for non-represented)
 - Sears
 - IBM



Sources: Bureau of Labor Statistics; EBRI

Thus far we have talked about incomes. The story is not favorable when we talk about retirement and health care, the so-called legacy costs companies increasingly balk at paying. Companies are increasingly reluctant to carry the risk.

In the last 28 years, the number of defined-benefit plans has halved. This is significant. DB plans put the risk of providing retirement income on the company. By getting rid of plans, companies are asking employees to bare the risk of their retirement. This is another version of YoYo – You're on Your Own.

Significantly, however, this is not happening across the board. In some companies, management bargains with unions to improve the terms of retirement security packages – GE, GM, and AT&T national contract. Meanwhile, other companies have ditched db plans – Sears, IBM, and Verizon (non-represented personnel).

Put this slide in the context of the other slides on widening income inequality. The rich are getting fabulously richer. The bottom 60% has stagnant incomes and is now increasingly bearing the risk of retirement.

Healthcare Trends Are Not Favorable

- Number of Americans with no health insurance in 2006: Over 47 million, or 1 out of every 7
- Percentage of employees at big companies who don't get health insurance from their employers: 25% (Companies of 500+ workers)
- Increase in cost of job-based health insurance plans in past five years: 68%
- Average cost of family coverage: More than \$11,000/year
- Percentage of firms offering health care coverage
 - 2000: 69%
 - 2005: 60%

The average family premium includes an **extra \$922** to pay for the cost of care for the uninsured (2005)



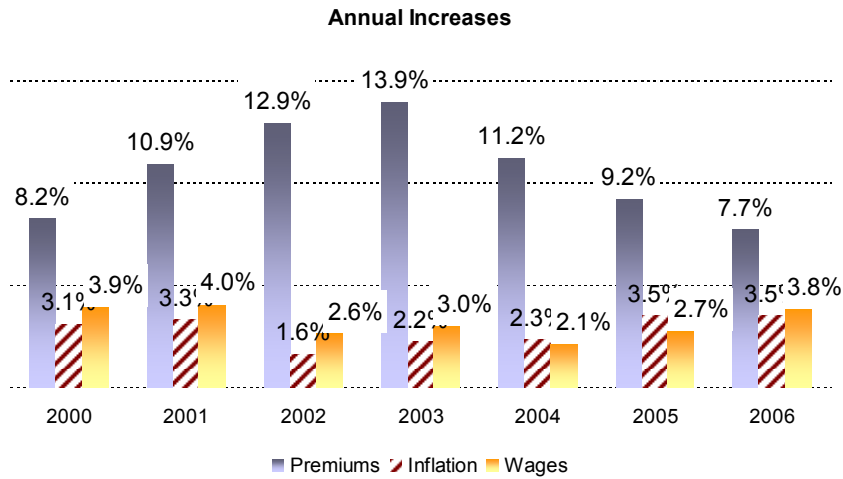
Sources: Census Bureau; Commonwealth Fund; Kaiser Family Foundation; Families USA

Healthcare trends are not favorable for the bottom 60% of the population either. Roughly 1 in 7 Americans does not have health insurance. We know what that means. Illnesses can destroy family wealth. Where healthcare providers cannot collect their fees, they ask those who do pay to pay extra. A vicious cycle.

Health insurance is pooled risk. We seemed to be moving away from pooling to YoYo. 25% of employees at large companies do not get insurance from them either because it is too expensive or the coverage is too meager.

To be fair to companies, the costs of health insurance have skyrocketed. The cost of job-based health insurance has risen 68% in five years. The average cost of family coverage is now more than \$11,000 / year. Over 40% of American companies do not offer insurance. The average family premium includes an extra 8% (\$922) just to pay for the uninsured.

Health Care Increases Outpace Wages & Inflation

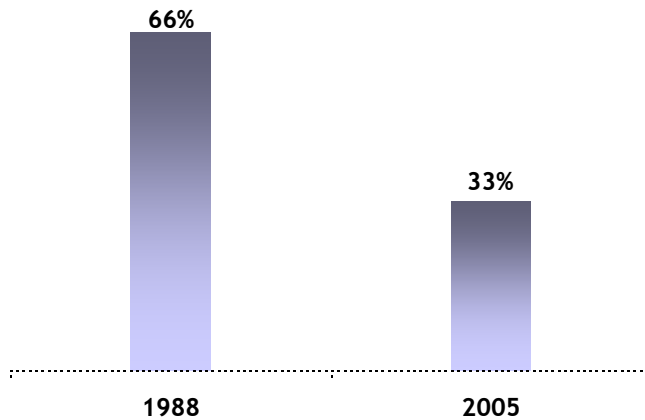


Sources: Kaiser Family Foundation; Bureau of Labor Statistics

This slide puts the rising health care costs into perspective. Look at how much faster health care costs rise than do inflation and wages. For these 7 years, health care costs rose a cumulative 102%. Meanwhile, inflation rose 21% and wages rose 24%. (As we saw, real wages rose just a bit more than 3% in this period.) The combination of stagnant incomes and higher health care costs – and the question becomes who absorbs those costs – leads to lower take-home pay.

Retiree Health Insurance Is Disappearing

Percentage of Employers Offering Retiree Health Care



Health care costs are especially high for retirees. One phone company has estimated that its pre-Medicare retiree health care costs are \$23,000. Companies are dropping retiree health care plans. The percentage offering plans has been halved in 17 years between 1988 and 2005. Again, this is YoYo at work: retirees, you're on your own.

Big Storm or Climate Change?



We have talked so far about macro-economic and macro-social issues. Most of us can get through a storm, even a bad storm. Sometimes it is important to step back and ask whether what we are witnessing is weather-related or climate change.

Market Change Has Altered the Terrain for Some Industries

- **Steel Industry:** disturbances: imports + technological change
 - 1974-2007: loss of 75% employment
- **Auto Industry:** disturbances: imports + transplants
 - 1974-2007: non-union foreign transplants force changes in UAW contracts with Big 3
 - Health care costs add \$1,500/vehicle
- **Telecom Equipment:** disturbance: offshoring
 - 1990-2007: loss of 66% employment



If you were in the steel industry after 1973, two key disturbances prevailed – imports and technological change (primarily the rise of the mini-mills). You might think the world you faced was even more serious than distributional: between 1974 and 2007, the industry lost 75% of its jobs.

In the auto industry, the disturbances have been lower-cost imports and transplants – largely Japanese companies producing in the U.S. at lower wages in non-union facilities and with lower “legacy” costs – retirement and health care. The companies estimate that health care adds \$1,500 to the cost of each vehicle.

In telecom equipment, the disturbance has been offshoring. Between 1990 and 2007, manufacturers have cut two-thirds of all jobs. Lucent, Motorola, Cisco Systems: where are they producing? Not here.

These three industries have faced climactic conditions in the last 20-30 years.

Addressing Potential Climate Change (GM)

- VEBA for Retiree Health Care
 - Protects funds from total loss in bankruptcy
 - Funded by deferred wages + company contribution
- Plants and jobs
 - Guarantees for existing workers
 - Lower start rates + no RHC for new hires



Within this context, it is interesting to examine one attempt to address the equivalent of climate change. At GM, the situation was dire. This company of 280,000 employees (152,000 in North America) – once the face of American capitalism – “What’s good for GM is good for the U.S.” – faced whispers of bankruptcy. It lost \$10 billion in 2005 and only \$1.8 billion in 2006.

The key issue for the company in the face of non-union transplants and cheap imports was to lower labor costs. For the UAW, failure to address the climactic conditions facing the industry might not have meant bankruptcy but it certainly would have seen the company continue to export jobs to Europe, Latin America, and Asia.

So the settlement in September 2007 was comprehensive for health care and retiree health care costs. Health care was maintained for active workers. A Voluntary Employee Benefit Association was used to fund retiree health care. The VEBA was funded through both deferred wages and company contributions. The VEBA does shift the risk away from the company. In this case, however, it also protects retiree health care in the event of bankruptcy.

Meanwhile, existing plants and jobs for thousands of UAW members were guaranteed. 3,000 temporary workers gained permanent jobs. New hires start at lower rates.

The deal solved the labor cost and health care cost issues for GM. It maintained work in the U.S. for the union. This was a compromise to avert disaster.

Regulatory Change Forces Other Industries to Compete on Costs

- Trucking Industry: **disturbance: deregulation**
 - Rise of non-union fleet in long-haul
 - Union representation drops from 60% (1973) to 20% (2002) in “for-hire” sector
- Airlines Industry: **disturbance: deregulation**
 - Airlines: bankruptcies used as lever to lower wages and benefits



Other industries have faced the equivalent of climate change (as opposed to stormy weather) because of changes in the regulatory regime. In general, deregulation has forced companies to compete on the basis of cost. That gives companies incentive to do whatever it takes to lower wages and benefits.

The trucking industry has seen the rise of non-union fleets in long-haul trucking. Now there are scores of independent companies competing to carry freight. Representation has dropped to 20% here.

Airlines have faced a different story. Price competition has forced many companies into bankruptcy. Think United Airlines, US Air, Delta, and Northwest. All have filed for bankruptcy as they struggled to compete with the low-cost airlines. Management then went to court to jettison pension plans and throw out labor contracts. The result has been lowering of wages just as it has been in trucking.

For neither trucking nor airlines, there do not appear to be grand solutions on the horizon.

Telecom

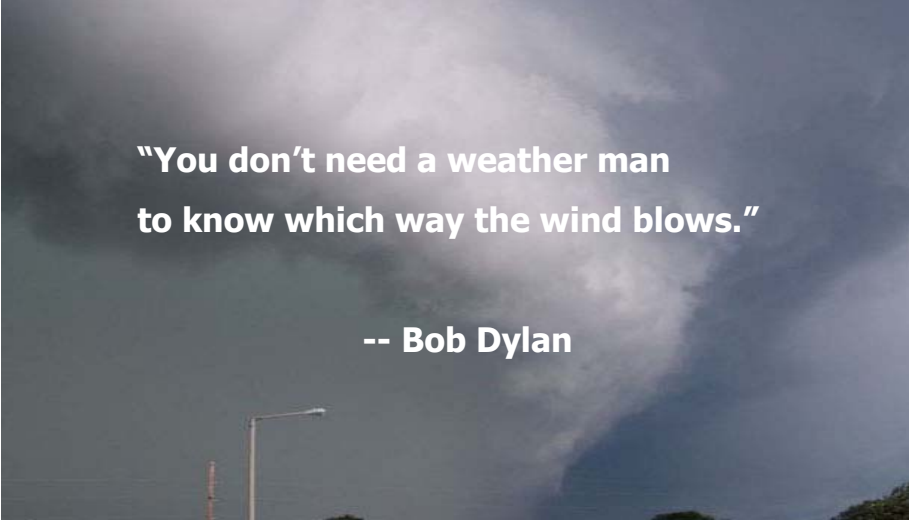
- Disturbances after divestiture: deregulation and technological change
- Unions have maintained wages and benefits
- Union representation 25% of all employees, but higher in:
 - AT&T (60%) because we organized AT&T Mobility
 - Qwest (58%)
 - Verizon (40%)
- Clouds on the horizon: technological change + industry fusion (TV-phone-data)



How does our industry fit in here – stormy weather or climate change?

The disturbances have been clear since divestiture: technological change and deregulation. The changes in the industry in the last 23 years have been tremendous in terms of long-distance, wireless, and the Internet. Yet, we have done a pretty good job of maintaining wages and benefits. Fortunately, union representation has been relatively high – 60% at AT&T due in part to our ability to organize Cingular / AT&T Mobility; 58% at Qwest; 40% at Verizon. Verizon is a struggle and we have important campaigns at Verizon Business and Verizon Wireless.

Yet, despite all the change we have experienced, there are still storm clouds on the horizon: the fusion of TV-phone-data and the platform to deliver those services.



**"You don't need a weather man
to know which way the wind blows."**

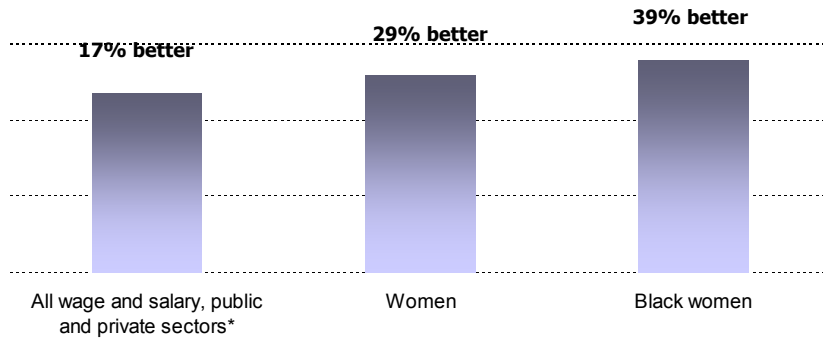
-- Bob Dylan



You don't really need a full analysis of the macro-economy to know that we in the labor movement have a lot of work to do. We have some cards in our hands

Unions Still Make a Difference

The Union Advantage in 2006
Percentage Improvement over Non-Union Wages

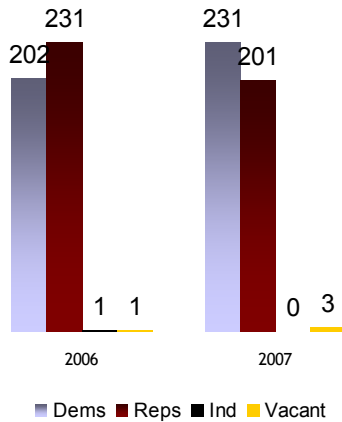


Source: Bureau of National Affairs, based on Current Population Survey

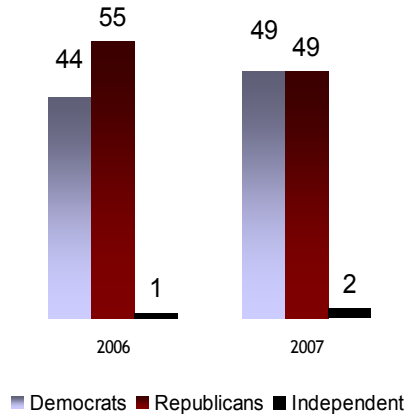
We still make a difference. Union-represented employees tend to have better health care and more retirement security than the non-represented. They also earn better wages as this slide show. Overall, public and private sectors, represented workers make 17% more than unrepresented workers. Represented women earn 29% more than unrepresented women. Represented African-American women earn 39% more than unrepresented African-American women.

2007: Dems Control Both Houses of Congress

House Shifts to Dems in 2007



Dems Control Senate Thanks to Two Independents



And progressives now control both houses of Congress. This is not a perfect situation. We have a president who promises to veto key legislation. We have conservative members of our own party who do not always see eye-to-eye with us about jobs, trade, even union rights. However, it is better in 2007 than it was in 2006. It will be better next year after the November elections.

Our goal in the political arena should at the very least stop this growing inequality between the top and bottom in society and to tie wages more closely with productivity.

This is a Story of Power

- Working families and our unions helped build a powerful American middle class
- Market shifts + regulatory change takes power away from workers
 - Companies gaining bargaining power at work
 - Corporate agenda dominates politics
- Stewards Army mobilizes working families and unions
 - Rebuild workers' power
 - Restore the American Dream



Working families and our unions have built a powerful middle class. Market shifts, regulatory change, and pure greed have taken power away from working families. We see this at the bargaining table. We see this in politics. It has to change. The Stewards Army we are building in CWA will help mobilize working families and unions to rebuild workers' power and to restore the American dream.

Our Agenda for Climate Change

- Employee Free Choice Act (EFCA)
- Health care
- Retirement security
- Trade / jobs
- Speed matters



The world is changing rapidly. Whether it is stormy weather or climate change, we don't know. But CWA has a powerful agenda to confront such change.

1. The Employee Free Choice Act (EFCA) will ensure that those who want a union can be represented by a union without the interference of employers. Weakening YoYo will be an important step in constructing an economy that works for all.
2. Health care. We seek some form of universal coverage that distributes costs more equally, allows companies to compete on the basis of the product or service they provide, and does not add undue costs to working men or women.
3. Retirement security. We seek the restoration of the three-legged stool – Social Security, private pension, and savings.
4. Trade / Jobs. We seek trade agreements that promote fair trade, not just free trade, and that do not prioritize corporate welfare over citizen welfare. We question the logic of unrestricted free trade with tyrannical regimes that repress labor rights, thereby giving their countries unfair advantages in the global marketplace.
5. Speed matters. We seek high speed and widely available broadband service as a way to promote economic growth and improve the delivery of health care, education, job training, public safety and other services vital to our citizens.

Three Sides of the Triangle

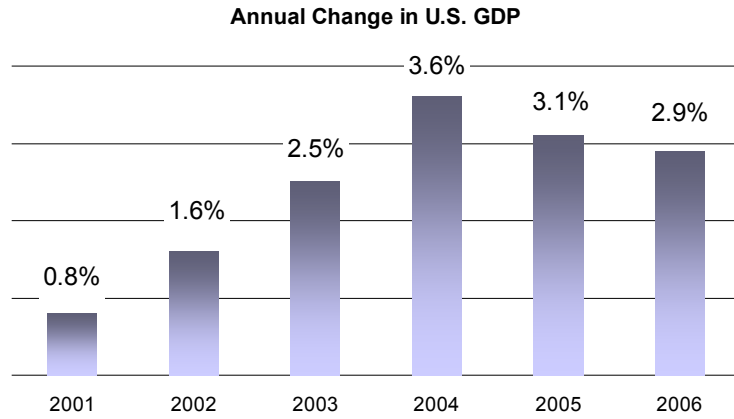


We can do it. We can promote and achieve that agenda through Organizing, Political and Community Work, and Representation.

Appendix

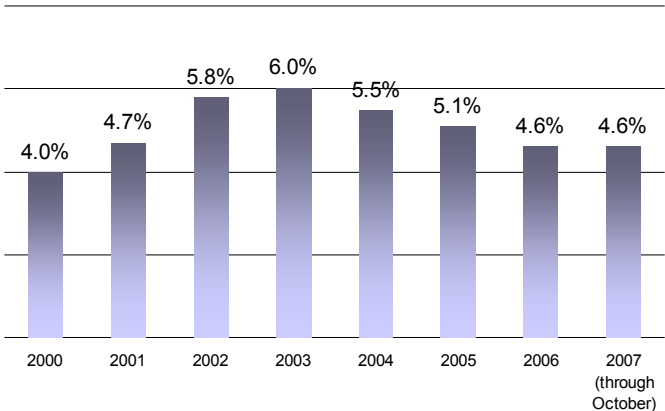


Real Change in Gross Domestic Product



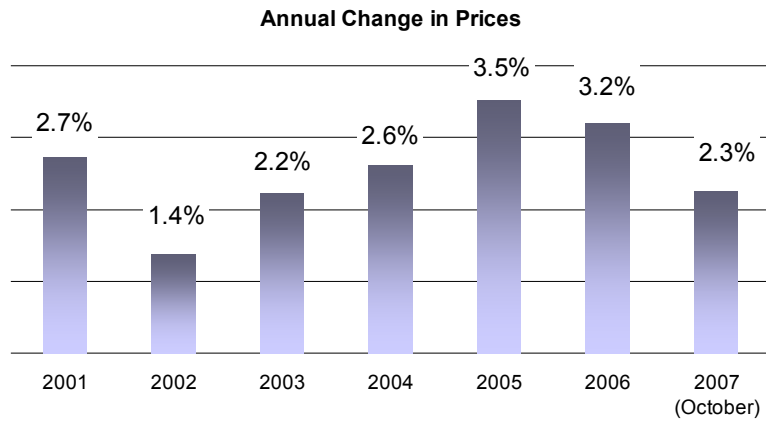
Source: Bureau of Economic Analysis, National Economic Accounts

Unemployment Rose After 2000, Now Decreasing



Source: Bureau of Labor Statistics

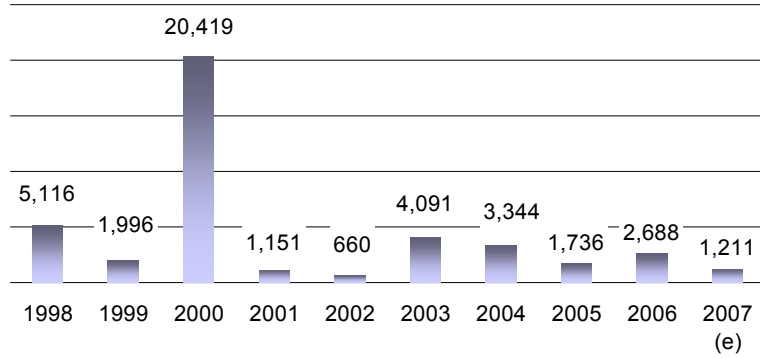
Moderate Increases in Price Levels



Source: Bureau of Labor Statistics

Strike Activity Low Across U.S.

Days of Idleness from Work Stoppages
(thousands)



Source: Bureau of Labor Statistics

Average Wage Increases in Telecom CBAs

Contract (settlement date)	2007	2006	2005	2004	2003
All settlements (first year of CBA) ¹	3.4% ²	3.6%	3.5%	3.5%	3.4%
Verizon East (2003) ³	2.8%	3.7%	2.0%	2.0%	3.0% ⁴
AT&T (SBC, 2004) ³	2.6%	2.5%	2.0%	3.0% ⁵	
AT&T (Legacy, 2005)	2.5%	3.0%	3.0%		
AT&T Mobility (D3, 2006)	3.0%	2.5%			
Qwest (2005)	2.5%	3.0%	3.0%		
Comcast ⁶	2.6%	3.0%	2.2%	2%	

- Notes:
- 1) Source: Bureau of National Affairs analysis of agreements
 - 2) Data from January through September 2007
 - 3) First year increases for VZ East and AT&T (SBC) in lump sum
 - 4) Bonus in lieu of annual increase in 2003
 - 5) Lump sum of 1% + 2% annual increase in 2003
 - 6) 2006 & 2007 data from W. Pennsylvania; 2004 and 2005 data from Michigan contract



Recent Wage Agreements (1)

Company	Annual Increases	Other	Contract Length	Union
GE June 2007 National	3% in 2007; 2.5% in 2008; 2.5% in 2009; 3% in 2010	Projected increase for IUE-CWA hourly: \$4.10 over term	4 years	IUE- CWA
Boeing (MDA) May 2007 4 sites	4% 1 st year; none 2 nd year; 3% 3 rd year	\$2,500 lump-sum payment 1 st year, 2 nd year	3 years	IAM
Freightliner May 2007 Cleveland	3% in 1 st year, 2 nd year, 3 rd year	\$1,500 ratification bonus	3 years	UAW
Whirlpool April 2007 Ft Smith, AR	\$0.35/hr in 2008; \$0.30 in 2009; none 2010; \$0.50 in 2011	\$1,500 signing bonus 2007	5 years	USW



Recent Wage Agreements (2)

Company	Annual Increases	Other	Contract Length	Union
Whirlpool April 2007 Ft Smith, AR	\$0.35/hr in 2008; \$0.30 in 2009; none 2010; \$0.50 in 2011	\$1,500 signing bonus 2007	5 years	USW
Northrup Grumman April 2007 Pascagoula, MS	Immediate increase of \$1.68/hour; \$0.55/increase in years 2 and 3	Increase in shift premium of \$0.20/hour; COLA 2 nd and 3 rd years	3 years	IAM, IBB, UBC, IUOE, LIUNA, IBT, UA, IUPAT, SMWIA, AWIU
CSX April 2007 National	Engineers get 3% increase + \$2,500 signing bonus	Future increases tied to CSX financial goals. If targets met: 6% of earnings as bonus in 2007; 8% in 2008; 10% in 2009	3 years	BLET



Recent Pension Agreements (1)

Company	Terms	Contract Length	Union
GE June 2007 National	Guaranteed pensions increased; employee contributions decreased; increase for existing retirees	4 years	IUE-CWA
Arizona Portland Cement June 2007 Rillito, AZ	Current employees keep db plans; new employees enrolled in 401(k)	4 years	USW
UTA/Hamilton Sundstrand May 2007 Windsor Locks, CT	Improvements to \$57 per year of service	3 years	IAM



Recent Pension Agreements (2)

Company	Terms	Contract Length	Union
Boeing May 2007 Los Angeles	1 year service required before employer-matching contributions; multiplier increased by 17%	3 years	UAW
Pitts. Brewing Co. January 2007 Pittsburgh	Replaced DB plan with 401(k)	3 years	IUE-CWA
Verizon September 2006 Indiana	Improved company contributions for current lower-paid workers	5 years	IBEW



Recent Health Care Agreements (1)

Company	Terms	Contract Length	Union
GE June 2007 National	Overall cost-sharing (premium + co-pay) increases from 17% to 20%	4 years	IUE-CWA
Boeing (MDA) May 2007 4 sites	Worker contribution to premium increased from 10% to 12%	3 years	IAM
Raytheon Missile January 2007 Tucson, AZ	Cap on employee premium increase: 19% over 2006 in 1 st year; 17% above 2007 in 2 nd year; 20% above 2008 in 3 rd year	3 years	IAM



Recent Health Care Agreements (2)

Company	Terms	Contract Length	Union
Electrolux December 2006 St. Cloud, MN	Employee contribution to premiums rises from 0% to 20%	3 years	IAM
Lockheed Martin August 2006 Multi-state	Caps on employee cost sharing. 2006: 13% annual premium; 2007: \$15/\$30/\$45 per week for individual, indiv + 1, and family	4 years	IUE-CWA
Avaya July 2006 National	Co-pays increase 1/1/07; ER visit increase; out-of-pocket max increases from \$1,000 to \$1,250 for single, from \$2,000 to \$2,000 for family; out-of-network increases 25%	3 years	CWA



Recent Retiree Health Care Agreements (1)

Company	Terms	Contract Length	Union
GM Pending National	Creation and funding of Voluntary Employee Benefit Association (VEBA) to fund retiree health care	4 years	UAW
Bridgestone/ Firestone April 2007 Multi-state	First \$1 of COLA diverted to retiree trust fund	3 years	USW
Mercy Hospitals August 2006 California	Company establishes 401(a) retiree health account to set aside money for retiree health care, depending on age & service	4 years	SEIU



Recent Retiree Health Care Agreements (2)

Company	Terms	Contract Length	Union
Lockheed Martin August 2006 Multi-state	Co. continues to pay for pre-65: \$9,000 for single, \$18,000 for family; above these totals, retiree pays 100%; Co. pays up to \$3,000 for single, \$6,000 for family supplementary Medicare	4 years	IUE-CWA
AK Steel Corp. July 2006 Butler, PA	Retiree co-pays increase for office visits and Rx; supplemental Medicare Part B eliminated; retiree health care premiums capped 1/1/2010; VEBA will start to pay out in 2012	6 years	USW
Avaya July 2006 National	Company increases contribution to VEBA to fund retiree hc by \$47 million per year in 2007, 2008, 2009	3 years	CWA

