RICK WARTZMAN

AUTOMATION AND GLOBALIZATION. Union decline and bottom line. Stakeholders and shareholders. These are just a few of the buzzwords we often hear in the current debates about economic growth and the future of American jobs. These debates tend to reproduce two conflicting accounts of what is happening. The first account assumes that growing inequality is fueling a race to the bottom, making it increasingly difficult for average workers to earn a livable wage. Those who accept this vision emphasize fair compensation, upward mobility, job training, and professional development. The second account presupposes that market forces, global competition, and the high cost of doing business in the United States have pressured domestic companies to re-think their business models. Those who accept this account stress the need to protect corporations through downsizing, cost-cutting, tax breaks, and maximizing shareholder value.

The debate is a subject quite familiar to journalist Rick Wartzman, who has been writing about it for over 25 years. In his most recent book, *The End of Loyalty: The Rise and Fall of Good Jobs in America* (2017), which includes the following chapter, he describes the overall erosion of the social contract between companies, their employees, and the communities they serve as the U.S. has moved from a manufacturing to service economy. That contract, once tacitly agreed upon though never codified as law, basically meant that companies could expect worker discipline in exchange for job security and good salaries with benefits. According to Wartzman, this contract, in force between the 1940s and 1970s, was primarily the result of two trends. One was strong union organizing in both public and private sector jobs, where labor representatives advocated for higher wages, health care, and retirement security for members, benefits which ended up spilling over to non-union jobs as well. The other trend was a general belief among corporate leaders that companies had an obligation to all stakeholders, whether employees, customers, suppliers, or investors. This resulted in a relatively stable workplace environment, both in terms of corporate and middle-class growth.

However, as Wartzman argues in "The New Face of Capitalism," the rise of corporate giants like Wal-Mart has completely re-shaped the economic landscape, as outsourcing, anti-union sentiment, increases in underemployment, and reductions of benefits and social services have fueled an ever-expanding class of the working poor. He details the various strategies (often illegal) that Wal-Mart has used to eliminate union organizing, increase the use of temps and other

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contingent workers, and pressure their suppliers into manufacturing products overseas. Exporting production keeps prices down and, as Wal-Mart argues, low-cost merchandise is precisely what keeps America's working poor from slipping into abject poverty. Wartzman counters this claim by citing Steve Dobbins, president of Carolina Mills: "People say, 'How can it be bad for things to come to the United States cheaply?.... But you can't buy anything if you're not employed. We are shopping ourselves out of jobs.'" Wartzman understands that companies cannot exist without workers and, equally, that strong businesses are necessary for jobs. Ultimately, he asks what a sustainable twenty-first-century corporate model might look like in order for all those concerned to benefit.

Rick Wartzman is currently the Director of the KH Moon Center for a Functioning Society at the Drucker Institute, host of the podcast, *The Bottom Line*, and contributing columnist for the magazine *Fast Company*. Prior to this, he served as the Executive Director of the Drucker Institute from its founding in 2007 until 2016. His career as a journalist began at *The Wall Street Journal*, where he was White House correspondent, among other positions, and continued at the *Los Angeles Times* as business editor, helping develop the 2004 Pulitzer Prize-winning series on "The Wal-Mart Effect." He has written on the intersection of business, management, leadership, and society for *Fortune, Time, Forbes,* and *Businessweek,* and he is the author of four books, including *The King of California: J.G. Boswell and the Making of A Secret American Empire* (2003) with Mark Araz; *What Would Drucker Do Now?: Solutions to Today's Toughest Challenges from the Father of Modern Management* (2012); and *Obscene in the Extreme: The Burning and Banning of John Steinbeck's* The Grapes of Wrath (2008).

The New Face of Capitalism

As America slipped toward, and then settled into, the early 2000s, it was only natural to look back upon the preceding one hundred years and take stock of those people and institutions that had exerted the most influence on the country and the world. *Time* magazine named Albert Einstein its Person of the Century. National Public Radio came out with its list of the hundred greatest American musical works of that span--a catalog whose eclectic nature was reflected in a sequence of tunes found in the middle of the Ss: "Singin' in the Rain," "Sittin' on the Dock of the Bay," "Smells Like Teen Spirit," and "Stand by Your Man." *Popular Mechanics* proclaimed the car the "defining device" of the era. And in the business world, many saw one company as the paradigm of the period (or a good chunk of it, anyway): General Motors.

But as edifying--or at least as entertaining—as it was to look back, it also made sense to look ahead. And as the new century began, commentators were eager to identify the company that was now positioned to be, in the words of one

group of scholars, "the face of twenty-first-century capitalism." Their choice, and the choice of many others, was Wal-Mart.

In terms of scale, Wal-Mart was the obvious successor to GM. In 2002, the retailer became the biggest corporation in America, topping the Fortune 500 list for the first time. By 2005, its revenues exceeded $285 billion, and profits surpassed $10 billion. It was the nation's leading seller of toys, furniture, jewelry, dog food, and scores of other products. It was also the largest grocer in the United States through its so-called Supercenter stores. To peddle all this merchandise, the company employed more than 1.3 million US workers. But there was a massive difference between GM and Wal-Mart. While the former had put most of its workers on a secure route to the middle class, the latter was placing many on a path to impoverishment.

For decades, Wal-Mart had enjoyed a reputation as the most wholesome kind of company, steeped in American values and a down home culture captured in the cheer that Wal-Mart employees would do, gathering in a circle at the start of every shift change: "Give me a *W*! Give me an *A*! Give me an *L*! Give me a squiggly! (followed by a shaking of the butt) Give me an *M*! Give me an *A*! Give me an *R*! Give me a *T*! What's that spell? Wal-Mart! What's that spell? Wal-Mart! Who's number one? The customer! Always!" Wal-Mart, said David Glass, who'd joined the company in 1976 and had served as its CEO from 1988 until 2000, was "sort of like motherhood and apple pie."

Nobody did more to enhance this image than Sam Walton, better known inside the company as "Mr. Sam," who liked to swing his muddy boots into the cab of an old pickup truck and drive around Bentonville, Arkansas, where in the early 1950s he'd started Walton's 5&10 on the town square. The first actual Wal-Mart was opened in 1962 in Rogers, about eight miles to the east. From the beginning, whenever Walton would deal personally with his workers—"associates," in Wal-Mart's communal-sounding parlance—he went out of his way to be as nice as nice could be. "This is a man who . . . treated his associates well as persons, not just as clerks and salespeople," said Walter Loeb, a retailing consultant. Signifying this trait, Walton renamed the personnel department the "People Division" and put forth a management philosophy that was all about motivating each and every employee to give his or her best. Wal-Mart "believes management's responsibility is to provide leadership that serves the associate," the company asserted in the 1991 edition of *Sam's Associate Handbook*. "Managers must support, encourage, and provide opportunities for associates to be successful. Mr. Sam calls this 'Servant Leadership.'"

But there was another aspect of Walton's belief system—an extreme tightfistedness—that rubbed up against this creed of caring. The idea was that by doing absolutely everything possible to minimize costs, Wal-Mart would be able to deliver consistently low prices to its customers, giving hardworking people more money to spend on other things. For the company, serving up bargains was more than just a business strategy; it was practically a religious calling. "If we work together," said Walton, "we'll lower the cost of living for everyone. We'll give the world an opportunity to see what it's like to save and to have a better life." Consumers ate

it up. By 2005, more than 90 percent of American households could be counted on to shop at Wal-Mart at least once a year; about a third of the nation shopped there every week.

For Wal-Mart's folksy founder, his CEO successors, and their executive teams, the company's parsimony translated into having tiny offices, emptying their own trash, flying coach, even sharing budget hotel rooms with colleagues when traveling on business. For Walton, who had a net worth of more than $100 billion, making him the richest person in the world, these were minor gestures. For Wal-Mart's hourly workers, though, the company's determination to pinch every penny was anything but minor: it left many of them scrambling to get by.

In the 1960s, Mr. Sam set up his stores as separate corporate structures—all linked back to a single financial partnership that he and his family controlled—so that revenues would come in at less than $1 million apiece, a threshold that permitted each location under government rules to pay less than the minimum wage. (A federal court eventually found this arrangement, while undeniably clever, to be improper.)

As the decades passed, the pressure to extract more from the workforce increased. Wal-Mart managers around the country forced employees to work off the clock and skip breaks; broke child-labor laws; and used illegal immigrants to clean its stores. It also locked workers inside overnight. The company maintained that this was to keep employees safe in high-crime neighborhoods, but former store managers said that the real purpose was to discourage workers from stealing anything or sneaking out for a smoke. Steven Greenhouse, the *New York Times* reporter who documented these and other such practices, has characterized them as "downright Dickensian."

Some Wal-Mart managers tried to make conditions insufferable for their highest-paid employees so that they'd quit and could be replaced by others earning less. Others made sure that their workers never logged quite enough hours to reach full-time status since, a part-timers, they wouldn't qualify for certain benefits. "I knew what I had to do," said Melissa Jerkins, who oversaw a staff of 120 at a Wal-Mart in Decatur, Indiana. "I had to meet the bottom line or my ass was in trouble. They didn't care how I got to that bottom line . . . so long as I got there."

Even for those employees who weren't victims of manipulated schedules or outright abuse, it could be tough to scratch out a living. In 2005, most Wal-Mart workers took home less than ten dollars an hour, compared with more than thirty dollars for a nonskilled assembly line worker at General Motors. This added up to a yearly income at Wal-Mart of about $18,000—below the poverty line for a family of four. Wal-Mart liked to talk up its profit-sharing plan. But because of high turnover, typical of most retailers, relatively few employees ever got to take much advantage of it. And even Wal-Mart acknowledged that a full-time worker might not be able support a family on a company paycheck. The health benefits that Wal-Mart offered were also lacking. As a result, many of its employees had to turn to public relief: food stamps, Medicaid, and subsidized housing.

In *Nickel and Dimed*, her 2001 modern classic about what it was like to take up a series of low-wage jobs across America, Barbara Ehrenreich recounted how

when she went to work at a Wal-Mart in Minneapolis, making seven dollars an hour, she soon found herself about to run out of money. She wound up seeking help through a human-services agency called the Community Emergency Assistance Program, which recommended that she move into a homeless shelter until she could save enough for a deposit and first month's rent on an apartment. Wrote Ehrenreich:

> At one point toward the end of the interview, the CEAP lady had apologized for forgetting almost everything I said about myself—that I had a car, lived in a motel, etc. She was mixing me up with someone else who worked at Wal-Mart, she explained, someone who had been in just a few days ago. Now, of course I've noticed that many of my coworkers are poor in all the hard-to-miss, stereotypical ways. Crooked yellow teeth are one sign, inadequate footwear is another. My feet hurt after four hours of work, and I wear my comfortable old Reeboks, but a lot of women run around all day in thin-soled moccasins. Hair provides another class clue. Ponytails are common or, for that characteristic Wal-Martian beat-up and hopeless look, straight shoulder-length hair, parted in the middle and kept out of the face by two bobby pins.
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> But now I know something else. In orientation, we learned that the store's success depends entirely on us, the associates; in fact, our bright blue vests bear the statement "At Wal-Mart our people make the difference." Underneath those vests, though, there are real-life charity cases, maybe even shelter dwellers.

One reason that Wal-Mart workers have always had difficulty improving their lot is that they've never been able to form a union. At its core, Wal-Mart's rationale for being against organized labor was not unlike that of Kodak, say, or General Electric under Lem Boulware: management had an open door policy, by which any worker could ostensibly walk in and discuss anything. Therefore, as Wal-Mart laid out in its "Manager's Toolbox to Remaining Union Free," "we do not believe there is a need for third-party representation. It is our position every associate can speak for him/herself without having to pay his/her hard-earned money to a union in order to be listened to and have issues resolved."

Yet unlike Kodak, which tried to frustrate union organizers by keeping its workers happy with good wages and princely benefits, Wal-Mart has been reliably ungenerous. And unlike GE, which fought tooth and nail against the International Union of Electrical Workers but ultimately honored its right to exist, Wal-Mart has never allowed so much as a single one of its stores to be organized. Indeed, ever since Mr. Sam's time, the company has done everything it can to crush the unions, painting them in the most Manichean terms. They are "nothing but blood-sucking parasites living off the productive labor of people who work for a living!" said attorney John Tate, an iron-willed right-winger whom Walton had hired to help beat back the Retail Clerks in the early 1970s and who then stuck around at Wal-Mart where he developed an array of antiunion techniques.

In the early 1980s, when the Teamsters attempted to represent employees at two Wal-Mart distribution centers in Arkansas, Walton himself showed up with a warning—US labor law be damned. Recalled one worker: "He told us that if the union got in, the warehouse would be closed. . . . He said people could vote any way the wanted but he'd close her right up." The Teamsters lost the election.

But it wasn't just top executives who were expected to resist being organized. "Staying union free is a full-time commitment," read a manual given out at a Wal-Mart distribution center in Indiana in 1991, the year before Walton died. "Unless union prevention is a goal equal to other objectives within an organization, the goal will usually not be attained. The commitment to stay union free must exist at all levels of management—from the chairperson of the 'board' down to the front-line manager. Therefore, no one in management is immune from carrying his or her 'own weight' in the union prevention effort. The entire management staff should fully comprehend and appreciate exactly what is expected of their individual efforts to meet the union free objective. The union organizer is a 'potential opponent' for our center."

The main thing that a Wal-Mart manager was supposed to do when he or she caught even a hint of union activity was to contact corporate headquarters via a special hotline. Immediately, a "labor team" would be sent from Bentonville to the store where union organizers might be gaining even the slightest toehold. This squad from HQ would then take over the running of the place, putting workers on a steady diet of antiunion propaganda videos; weighing whether local managers were too timid or sympathetic to labor and should be ousted; and keeping a close eye on any employees agitating for a union or simply disposed to having one. "As soon as they determine you're prounion, they go after you," said Jon Lehman, who was a Wal-Mart manager in Kentucky for seventeen years. "It's almost like a neurosurgeon going after a brain tumor: we got to get that thing out before it infects the rest of the store, the rest of the body."

Much of this strategy evoked the way that GM and other companies deployed Pinkertons to bully the unions way back in the 1930s. "I had so many bosses around me, I couldn't believe it," said Larry Adams, who worked in the tire and lube express department at a Wal-Mart in Kingman, Arizona, which grabbed the labor team's attention in the summer of 2000. With temperatures soaring well above a hundred degrees, Adams and sone of his follow automotive technicians got angry their boss wouldn't spend the $200 needed to fix a broken air conditioner. So, they reached out to the United Food and Commercial Workers union. Within forty-eight hours, twenty outside managers were crawling all over the store. "It was very intimidating," said Adams. The UFCW's organizing push in Kingman would end in defeat; within a year or so, nearly every one of the union supporters would be fired or compelled to quit.

At a Wal-Mart Supercenter in Jacksonville, Texas, a group of meat-cutters had better luck at organizing—though not for long. A week or two after they voted to join the UFCW in February 2000, the company announced that it would cease cutting meat and switch instead to selling prepackaged beef and pork at all of its stores. Wal-Mart said that the butchers' seven-to-three vote in favor of the UFCW had nothing whatsoever to do with its decision to stock "case-ready"

meat. Yet it was all but impossible to miss that the move essentially eviscerated the union's first ever victory at the company, as Wal-Mart successfully argued that the changes to the meat department made it so that collective bargaining wasn't appropriate going forward. The UFCW challenged the company's stance before the National Labor Relations Board, but after eight years of rulings by the agency and the courts, the union could claim only a partial win; Wal-Mart would escape being unionized.

The dust-up in Texas was far from unusual. In all, unions filed 288 unfair-labor-practice charges against Wal-Mart between 1998 and 2003. Most alleged that the company had engaged in improper firings, threatened employees if they tried to organize, carried out surveillance, or illegally interrogated workers to determine their views on labor-related matters. Of these charges, the NLRB found ninety-four of them to be substantive enough to issue a formal complaint against the company. Still, none of it was enough to shake Wal-Mart's conviction that organized labor needed to be stopped at all costs. "I've never seen a company that will go to the lengths that Wal-Mart goes to, to avoid a union," said consultant Martin Levitt, who helped the company hone its attack before writing a book titled *Confessions of a Union Buster.* "They have zero tolerance."

But if Wal-Mart was particularly strong-minded in its opposition to organized labor, most other companies weren't too far behind. For example, at a Coca-Cola bottling plant in Yuma, Arizona, a manager told employees in 2002 that they'd lose their 401(k)s if they voted to be represented by the United Industrial, Service, Transportation, Professional, and Government Workers of North America. The union lost the election by a vote of eleven to ten. At a General Electric subsidiary in Muskegon, Michigan, which hadn't been organized, a machine operator named Michael Crane began to hand out literature promoting the Electrical Workers and wear a union T-shirt on the job, only to find his manager repeatedly asking him, "Don't you have a better shirt to wear?" If this was overly subtle, the company's subsequent action wasn't: it fired Crane on a bogus accusation of substandard workmanship.

It wasn't always like this. In the 1960s, when some 30 percent of the private-sector workforce in America was still unionized, employers were generally cautious about how far they'd go in trying to repel organized labor. "They were as nervous as whores in church," said one corporate adviser. "The posture of major company managers was, 'Let's . . . not make the union mad at us during the organizing drive or they'll take it out at the bargaining table.'" By the 1980s, a whole industries had sprung up to assist business: "union avoidance" consultants, lawyers, psychologists, and strike-management firms. The more enfeebled the unions became, the more forcefully employers then acted. By the 1990s, even companies that had once accepted unions as a fact of life were now totally defiant.

"The most intense and aggressive antiunion campaign strategies, the kind previously found only at employers like Wal-Mart, are no longer reserved for a select coterie of extreme antiunion employers," Cornell University's Kate Bronfenbrenner wrote in an analysis of how business conducted itself during

representation elections from 1999 through 2003. Specifically, she discovered that companies threatened to close the facilities where employees were trying to organize in 57 percent of elections, raised the possibility of cuts to wages and benefits in nearly half, and went so far as to actually discharge workers a third of the time. Over the years, employers also became adept at delaying union elections so that they had more time to coerce workers to see things their way.

All of this proved highly effective. Even if the NLRB ruled that a company had illegally dissuaded employees from organizing, the price to pay was typically small—about $200,000 in penalties—compared with the many million of dollars that could be saved by ensuring that union negotiators never got a shot to bolster workers' earnings, retirement plans, and health-care benefits.

Unions hurt themselves as well. Apparently carried away by the power that they were able to maintain through the 1950s and '60s, labor leaders by the 1980s were dedicating less than 5 percent of their budgets toward recruiting new members. By the time that they woke up and realized that it was crucial to expand their rolls, the composition of the economy had been recast. During the 1930s, when the Auto Workers were first signing up members inside the nation's car factories, it was possible to pull in large pools at once because each plant averaged between 2,000 and 3,000 blue-collar employees. By contrast, organizers were likely to find a tenth that many workers under the roof of a big box retail outlet and far fewer at a fast-food joint, making it much more expensive and daunting to pick off sizable slices of the service sector. The growing use of temps and other contingent workers also complicated union organizing.

Labor did notch some significant triumphs through the 1990s, such as the Service Employees International Union's Justice for Janitors campaign, which propelled more than 100,000 building workers in various cities into collective bargaining, and the election that saw 74,000 home-care aides in Los Angeles County join the SEIU. But such advances were extremely rare. By 2000, the portion of private-sector workers across the United States who were union members stood at just 9 percent—less than half of what it had been in 1980. By 2010, this figure would dip below 7 percent, even though surveys showed that a majority of nonunion workers desired representation.

The drop was rough on employees across the economy. While the ascension of unions helped to lift pay and benefits for tens of millions of workers in the first few decades after World War II—not only at those companies that had been organized, but at many others that felt the need to keep up—the fall of organized labor was now dragging down people's compensation. Researchers have found a connection between the decline of unions and the rise of income inequality in America; without the added clout that comes with collective bargaining, a good many employees have seen their compensation stagnate or even get set back. "Deunionization," Lawrence Mishel of the Economic Policy Institute has written, "has strengthened the hands of employers and undercut the ability of low- and middle-wage workers to have good jobs and economic security."

For many people, this reality has had a perverse effect: it has incentivized them to do their shopping at one destination above all others—Wal-Mart. It is tough to

fault them. In the early 2000s, the prices on groceries at a Wal-Mart Supercenter were running 8 to 27 percent below those of a traditional supermarket. All in all, the company's prices have been so low—and its reach so vast—that some economists have credited it with singlehandedly helping to hold down inflation for the entire country.

Even union members, who are keenly aware of the company's two-fisted tactics against organized labor, have been tempted by the discounts. "Ten bucks," said Glenn Miraflor, an ironworker and a father of four, as he lowered a twenty-inch box fan into his cart at a Wal-Mart in Las Vegas in 2003. "You can't beat that." Eyeing a new PC, he added: "Where else are you going to find a computer for $498? Everyone I work with shops here."

The clamp that Wal-Mart put on workers didn't stop with those on its own payroll.

Most every time it opened a new store, other retailers that charged their customers more—but also paid their employees better—would find that they couldn't compete. For many of them, the only way to survive was to imitate the Wal-Mart model, cutting back on their own workers' wages and health care. "Socially," said Craig Cole, the chief executive of Brown & Cole Stores, a supermarket chain in the Pacific Northwest, who was wary of Wal-Mart coming into his area, "we're engaged in a race to the bottom."

In October 2003, members of the United Food and Commercial Workers struck Vons and Pavilions markets in Southern California. In a show of solidarity, Ralphs and Albertsons locked out their union members the next day. In all, 59,000 workers were idled. Although the grocery chains and the union were the only two sides actually facing off at the negotiating table, another presence hovered over the talks: Wal-Mart, which was on the verge of opening dozens of Supercenters in the region. "They are the third party now that comes to every bargaining situation," said Mike Leonard, director of strategic programs for the UFCW.

As the supermarket depicted it, the union would have to make concessions—or Wal-Mart would use its low-price formula to snatch away a substantial amount of their business, causing them to close many of their stores and costing many thousands of jobs. After all, what else could anyone expect to happen when Wal-Mart paid its grocery workers about nine dollars an hour in wages and benefits, compared with nineteen at the big supermarkets? Already, from 1992 through 2003, Wal-Mart's leap into groceries had led to the closure of 13,000 supermarkets in other parts of the country and the bankruptcy of at least twenty-five regional chains. Yet for the UFCW and its allies, this was precisely the time to hold the line and not let Wal-Mart dictate that the entire sector would subject its workers to the lowest common denominator. "If we don't as labor officials address this issue now, the future for our membership is dismal, very dismal," said one California union representative.

For nearly five months, the UFCW rank-and-file walked the picket lines from San Diego to Bakersfield. Finally, a settlement was reached—and it marked a big step backward for the union and its members. Central to the accord was the

introduction of a two-tier system under which the supermarkets would pay new hires much less in wages and benefits than veteran employees. The impact, said *Los Angeles Times* columnist Michael Hiltzik, was that UFCW "membership will evolve from a group of decently paid workers into a group of poorly paid ones. Its resources to fight the employers will dwindle, and its prospects for growth will vanish. . . . The damage done by this dispute to the principle of providing a living wage and adequate health-care coverage for employees will be felt by workers—union and nonunion—around the state and across the country."

Some, including Hiltzik, maintained that Wal-Mart had been a convenient bugaboo for the supermarkets and that they were unlikely to pass along much savings from the new labor agreement to their customers; instead, they would reward their shareholders and senior executives. At the same time, others welcomed Wal-Mart, especially in the inner-city neighborhoods that the company had set its sights on. "I'd rather have a person on somebody's payroll—even if it isn't at the highest wage—than on the unemployment roll," said John Mack, president of the Los Angeles Urban League. Boosters predicted other positives as well. "Money that people save on groceries will be redirected to other items, including housing, savings, health, entertainment, and transportation," said a report from the Los Angeles County Economic Development Corporation. "This new spending will, in turn, rent jobs outside the grocery industry."

But whatever pluses Wal-Mart was bringing, this much was beyond debate: another set of workers was now part of an industry that couldn't guarantee them a solid living. Under the old contract, a grocery clerk in Southern California could earn more than seventeen dollars an hour; under the new one, workers started at less than nine dollars and could make, at most, about fifteen. Overall, the average wage for a supermarket worker was poised to decrease between 18 and 28 percent. And anywhere from a quarter to nearly half of the unionized workforce would no longer be eligible for medical insurance. Employer pension contributions were also slashed 35 percent for current employees and 65 percent for new workers. "You're not going to be able to make a career out of it anymore," said Kerry Renaud, a produce worker at a Vons supermarket in Hollywood. Barbara Harrison, a bakery worker at Ralphs, put it this way: "With treatment like this from the company . . . the middle class is just becoming the lower class."

In 2007, the UFCW would win back some of what it had lost. Most important, the union was able to reverse the two-tier setup. With low employee morale plaguing the supermarkets, they apparently came to the realization that dividing the workforce wasn't so smart. The pact also included the first pay raises that workers had received in five years. But this wouldn't be a tale of sweet redemption. As the years went on, the social contract throughout the industry would continue to weaken. Wal-Mart and other nonunion grocers acquired more and more market share. And at the unionized chains, rule changes and scheduling tricks made workers wait an increasingly long time before they could move up the ladder and command the highest wages. By 2016, the average grocery worker in L.A. would be making less than $29,000 a year, down from more than $31,000 in 2005, when adjusted for inflation. "Grocery store jobs look much more like

fast-food jobs than they used to," said Chris Tilly, director of the UCLA Institute for Research on Labor and Employment. "Lower pay, fewer benefits, more people part-time."

Meanwhile, Wal-Mart's sway extended to another batch of workers: those of its suppliers. "Your price is going to be whittled down like you never thought possible," said Carl Krauss, the owner of a Chicago company called Lakewood Engineering & Manufacturing. It produced the fan that Las Vegas Vegas ironworker Glenn Miraflor purchased at Wal-Mart for ten dollars. A decade earlier, it cost shoppers twice as much. But Wal-Mart, whose bigness gave it tremendous leverage over the companies whose wares filled its aisles, insisted that Krauss figure out how to make the appliance for less. "You give them your price," Krauss said. "If they don't like it, they give you theirs." To lower expenses, Krauss automated his factory: where it once required twenty-two people to assemble a product, it now took only seven. Krauss also leaned on his own suppliers to reduce prices for their components. Still, that wasn't enough. And so in 2000, Krauss opened a factory in Shenzhen, China, where workers earned twenty-five cents an hour, compared with thirteen dollars in Chicago. By 2003, about 40 percent of Lakewood's products were being made in China, including most heaters and desktop fans. For the box fan that Glenn Miraflor bought, the electronic innards were imported.

Many of Wal-Mart's suppliers found themselves in the same boat—or, more accurately, filling an endless string of container ships crossing the Pacific Ocean. In the mid-1980s, Wal-Mart had tried to score public-relations points by sourcing more products domestically. Under its "Buy American" initiative, patrons to its stores were greeted with red-white-and-blue banners and smaller signs that read, "This item, formerly imported, is now being purchased by Wal-Mart in the USA and is creating—or retaining—jobs for Americans!" By the mid-1990s, however, "Buy American" didn't pencil out for the company anymore. In 2002, Wal-Mart brought in $12 billion worth of Chinese-made goods, double the sum from five years earlier. By 2004, that was up to $18 billion, and by 2006 it had reached $27 billion, accounting for nearly a tenth of total U.S. imports from China. "People say, 'How can it be bad for things to come into the United States cheaply? How can it be bad to have a bargain at Wal-Mart?'" said Steve Dobbins, president of Carolina Mills, a supplier of thread and yarn to the textile industry, which has watched as employment in American apparel factories has disappeared at a rate of more than 11 percent a year since the late nineties. "Sure, it's held inflation down, it's great to have bargains. But you can't buy anything if you're not employed. We are shopping ourselves out of jobs."

By one estimate, Chinese imports to Wal-Mart alone were responsible for wiping out more than 300,000 U.S. manufacturing jobs between 2001 and 2013—a manifestation of what had suddenly be come a very serious predicament across America. "Until about a decade ago, the effects of globalization on the distribution of wealth and jobs were largely benign," Michael Spence, a Nobel Prize-winning economist, wrote in 2011. "But employment in the United States has been affected . . . by the fact that many manufacturing activities, principally their lower-value-added components, have been moving to emerging economies." Through the 1990s, the United States ran a trade deficit, but it averaged only about 1 percent of the nation's economic output—a bearable volume. To be sure, the North American Free Trade Agreement caused some pockets of the nation to shed jobs, but the negative repercussions were quite small on the whole, and the losses may well have been eclipsed by new U.S. employment that NAFTA helped to generate.

China was very different, however. After the country joined the World Trade Organization in 2001, giving it more access to markets across the globe, imports into the United States surged. The US trade deficit exploded, averaging about 5 percent of economic output in the 2000s. A consensus of economists and policymakers had long contended that free trade easily made for far more winners than losers. But, as *The Wall Street Journal* has pointed out, "China upended many of those assumptions. No other country came close to its combination of a vast working-age population, super-low wages, government support, cheap currency, and productivity gains." Within four years of the WTO admitting China, imports from there as a percentage of U.S. economic output doubled. It took Mexico twelve years to do the same thing following the passage of NAFTA.

"China's low-cost imports swept the entire U.S." the *Journal* reported, "squeezing producers of electronics in San Jose, California; sporting goods in Orange County, California; jewelry in Providence, Rhode Island; shoes in West Plains, Missouri; toys in Murray, Kentucky; and lounge chairs in Tupelo, Mississippi, among many other industries and communities." Total manufacturing employment in the United States, which had held fairly steady through the 1990s, plunged after 2001. The harm inflicted would lead many Americans to regard globalization as more bad than good—an attitude that would help shape the contours of the 2016 U.S. presidential race. "The Chinese export onslaught . . . left a scar on the American working class that has not healed," Eduardo Porter of the *New York Times* has written.

How much of this can or should be blamed on any single company—even a colossus like Wal-Mart—is certainly arguable. Not surprisingly, Wal-Mart itself has always made the case for total absolution. "Some well-meaning critics believe that Wal-Mart, because of our size, should play the role that General Motors played after World War II, and that is to establish the post-world-war middle class that the country is so proud of," said H. Lee Scott Jr., who took over as the company's CEO in 2000. "The facts are that retailing doesn't perform that role in the economy as GM does or did."

While Scott wasn't wrong, that was surely of little solace to millions of workers who'd seen the economy change, leaving them with fewer and fewer ways to get ahead. When GM and other manufacturers employed a quarter or more of the American workforce through the early 1980s, even those without much education could land a factory job and do quite well. But what were the two-thirds of Americans without a four-year college degree supposed to do now? Manufacturing, with its high wages and good benefits, employed just 10 percent of Americans by 2010. And even many of these industrial jobs and other blue-collar positions now demanded technical instruction beyond high school—something that far too few people had.

"The person who unloads the truck now has to have some training in logistics and inventory systems," said Anthony Carnevale, director of Georgetown University's Center on Education and the Workforce. "You don't become an auto mechanic any longer by getting a dirty rag and hanging out with your uncle." It wasn't that more of the nation hadn't grasped the value of being in a classroom. Between 1967 and 2012, the ranks of US adults with at least a four-year college degree rose from 13 percent to 32 percent, "a remarkable upgrading in the skills of America's workers," as a study by Carnevale has described it. Yet even when you added up all of those with four-year college diplomas, two-year associate degrees, and postsecondary vocational certificates, it still came out to less than half of the working-age population. Making things worse, many big companies—even while complaining about a "skills gap"—had stopped trying to develop their people. While both white- and blue-collar workers received on-the-job training as a matter of course in the 1950s and '60s, surveys now indicated that anywhere from about 50 percent to 80 percent of American employees got nothing of the sort.

For most of those without the right credentials, the only option was to try to make it amid a decidedly low-wage landscape, one now dominated by poorly paying service providers. In 1960, eleven of the fifteen biggest employers in the country made things, led by GM, with nearly 600,000 workers. By 2010, only four manufacturers were in the top fifteen; the rest were in services, including not only Wal-Mart but also McDonald's, Yum Brands (the parent of Taco Bell, KFC, and Pizza Hut), Target, and CVS. These occupations "are crucial to the support and growth of major industries across the country," officials at the San Francisco Federal Reserve said, "but many of these workers do not earn enough to adequately support their families, even at a subsistence level."

Yet for Lee Scott, paying more and offering larger benefits would have undercut Wal-Mart's reason for being. If "we raised prices substantially to fund above-market wages," he said, "we'd betray our commitment to tens of millions of customers, many of whom struggle to make ends meet."

Others, though, didn't buy it. "Being able to purchase groceries 20 percent cheaper at Wal-Mart," said Paul Samuelson, who is regarded as the father of modern economics, "does not necessarily make up for the wage losses." Besides, this wasn't the only way to do business. Some retailers had an alternate approach—most notably Costco, which paid an average of seventeen dollars an hour in 2005, more than 40 percent higher than the average wage at Wal-Mart's Sam's Club, its closest rival. What's more, a much bigger proportion of Costco workers had medical coverage and retirement plans than did their counterparts at Wal-Mart, and these benefits were far superior. After four and a half years, a full-time Costco worker would earn more than $46,000 a year; a full-time Sam's Club worker made $27,000. "We're not the Little Sisters of the Poor," said Jim Sinegal, Costco's longtime CEO. "This is good business."

By investing in his employees, Sinegal knew, they were bound to give excellent service to the company's customers, which helped to drive satisfaction and sales. "It starts with a living wage and affordable quality health benefits," said Richard Galanti, the chief financial officer at Costco, whose stock price would greatly outperform Wal-Mart's through most of the 2000s and beyond. "That's the initial basis for engagement."

Across most of the American economy, however, Costco has very much been the exception; Wal-Mart, the rule.

Can the American corporate social contract ever be reconstructed? The short answer is now at least not in the way it was before. The Golden Age was sui generis, and too much has changed since then.

Some unions and other labor groups are using online technology to organize employees and give them new tools to stand up for their rights, while helping to finance valuable campaigns for low-wage workers such as the Fight for $15. Still, we'll never again see private-sector unionization rates—and the potency that comes from widespread collective bargaining—like we had in the 1950s or '60s. Our economy isn't built for that anymore.

We must also accept that if artificial intelligence displaces masses of workers—and it well may, particularly those with few skills—we shouldn't try to stand in its way. If the economy is going to continue to grow, we must have technological progress. We shouldn't try to stop international commerce, either. It, too, is essential to our long-term economic growth, and trade restrictions won't be effective anyway. A third of the components used in products made in America are imported from overseas. Plus, the flow of goods is flattening while the flow of data, zipping invisibly across borders, is swelling.

What's required now is a new social contract that takes into account these realities.

The government has an enormous part to play. We need a higher federal minimum wage and, in our most expensive cities, a true living wage. Although organized labor won't recapture its former prominence, Washington needs to make it easier for workers to unionize. We need paid family leave. We need stricter enforcement of labor standards to help workers fend off wage theft—the denial of pay and benefits rightly owed them—and other violations, especially at a time when so much of the nation's employment is being generated among temps, freelancers, and others in contingent jobs. We need to expand the Earned Income Tax Credit.

We need portable benefits for Uber drivers and other "gig workers"—a still small but increasingly important segment of the labor market. We need the government to better support technological innovation and create an environment that fosters entrepreneurship, which, despite the radiance from Silicon Valley, has been at a low ebb in America for the past thirty years. We need the Federal Reserve to make full employment a priority.

And although it is due to dismiss as a bromide, we really do need to revitalize public education from top to bottom.

We also need changes to our tax laws and accounting standards so that executives are induced to look beyond their company's quarterly earnings and daily share price. We need institutional investors to exhort corporations to keep sight of the long term, and not just pay attention to results in the short term.

But more than anything, we need to recognize that the social contract between employer and employee won't be strong unless our business leaders want it to be so.

"Companies once felt an obligation to support American workers, even when it wasn't the best financial choice," said Betsey Stevenson, who was chief economist at the Labor Department from 2010 to 2011 "That's disappeared. Profits and efficiency have trumped generosity."

We can't mandate that executives think the way they used to. We can't demand that they alter the norms by which they operate and like the generation of executives who'd come through the crucible of the Great Depression and World War II—suddenly make it more about "we" and less about "I." We can't force them to invest in their workers through more training and higher compensation and stronger job security.

We—as employees and as consumers—can only encourage them to realize that corporate America's continuing fixation with putting shareholders above everyone else is ultimately bad for their companies. "A healthy business," wrote Peter Drucker, "cannot exist in a sick society." Restoring more balance between worker and investor would be a welcome balm.

A few may be starting to get it. Wal-Mart, of all companies, made *Fortune* magazine's Change the World list for 2016. It was so honored for raising its workers' pay to an average of $13.38 an hour and enrolling half a million employees in a curriculum "designed to teach job skills that could help them climb the income ladder."

And yet there is much, much more that Wal-Mart and many other corporations can do, and must do, if we are to come to grips with the most pressing issue of our time: distributing the nation's economic gains more broadly.

"The American people have continued up to now to tolerate abuses that have developed in our economic system because . . . they believe it can be made to work for the good of all," one become at leader avowed. "They must see a chance for a better life for themselves." Almost unanimously, they want it for their sons and daughters.

"Most Americans," he added, "would agree on the economic goals for America: a community permanently rich in opportunity and security."

More than seventy years after William Benton, vice chairman of the Committee for Economic Development, made that statement, it would be difficult to argue that our goals are any different today. What has corroded, sadly, is the underlying belief that the system can be made to work for the good of all.

A NOTE ON CITATIONS AND SOURCING

Because of the extensiveness of the endnotes, they are being published online. You can access them at www.hachettebookgroup.com/features/publicaffairs/endofloyalty.

QUESTIONS FOR MAKING CONNECTIONS WITHIN THE READING

1. Explain what CEO Craig Cole means when he says that Wal-Mart has become the leader in a "race to the bottom." For the average Wal-Mart customer, including ironworker Glenn Miraflor (the buyer of the ten-dollar box fan) "the bottom" means the lowest price possible. But the system Wal-Mart helped to create has had the unintended effect of depressing wages, not only in the service sector but also in manufacturing. How does Wal-Mart produce this effect? And why haven't people noticed? Is it because cheaper goods provide an immediate benefit, whereas the advantages of rising wages, which push prices up, take longer to be obvious? Based on your reading of Wartzman, how well understood is the problem he describes? Does anybody see the whole system—the consumers, the workers, Wal-Mart's leadership?
2. In what ways does Wal-Mart's "American as apple pie" image conflict with its dependence on the global economy? If Wal-Mart could no longer find cheap labor overseas, what would happen to its business model? Free trade—that is, a global economy—is supposed to promote price competition that will benefit everybody in the long run. Workers in poorer nations can produce consumer goods for less, and their shift from village farming to manufacturing will raise their wages, in theory. At the same time, developed countries like the U.S. will be able to leave manufacturing behind in order to embrace other kinds of jobs that require more education and "brainpower" than the old factories required. But that is not what has happened here. Where and how has the theory gone wrong?
3. In what ways did the rise of Wal-Mart exacerbate the decline of union power? In the middle of the twentieth century, companies commonly avoided open resistance to organized labor, fearful that employees would force them to the bargaining table in search of better wages and benefits. But, according to Wartzman, Wal-Mart's "zero tolerance" approach to unions ushered in a new wave of open hostility to unions. How has this imbalance in power changed what Wartzman refers to as the "social contract" of these corporations? What do you think "social contract" means in the context of this protracted fight between unions and corporations? Based on your understanding of Wartzman, do you think the balance of power will ever tip again? What conditions would be necessary for such a change?

QUESTIONS FOR WRITING

1. The economist John Maynard Keynes is famous for rediscovering what is known as the "paradox of thrift." He pointed out that when individuals try to save by decreasing their expenses, they may be able to make modest gains. But when a whole community tries to do the same—saving more by

spending less—the decline in economic activity pulls everybody down. To what degree is Wal-Mart's economic model—the way its business operates—trapped by the paradox of thrift? In what ways does it complicate Keynes' reasoning? While it's true, for example, that wages are falling as consumer prices drop, the Wall-Market corporation continues to see record profits. Indeed, as Wartzman points out, Sam Walton was until his death the richest person on earth with a personal fortune of 100 billion dollars. Has the Walton family somehow escaped the paradox of thrift?

2. The Greek root of the word "democracy" means "rule by the people." The ancient Greeks contrasted democracy with aristocracy, rule by the elite; oligarchy, rule by the wealthy; and tyranny, rule by a dictator. Based on Wartzman's article, would you say that the United States today is a democracy? An aristocracy? An oligarchy? To what degree are people free to "rule" themselves, either directly or by representation? If the democratic system stops as soon as you enter your workplace, are you really living in a democracy? To what degree are Wal-Mart's anti-union tactics aimed at preventing greater workplace democracy?

QUESTIONS FOR MAKING CONNECTIONS BETWEEN THE READINGS

1. In "An Army of One: *Me*" Jean Twenge describes the increasingly narcissistic character of American social life. To what degree might the Wal-Mart economy contribute to the narcissism she describes? Is the idea that everyone deserves seven-dollar T-shirts and cheaper groceries related to the notion that we are all exceptional in our own way? If the self-esteem curriculum downplays the links between hard work and achievement, do Wal-Mart customers have any awareness of the sacrifice and labor required to create the products they buy? Does Wal-Mart encourage people to see themselves as isolated individuals rather than members of a community? Or does it create an ersatz community—a substitute that looks like the real thing but lacks its essential elements?
2. In "The Extraordinary Science of Addictive Junk Food," Michael Moss describes the complex system that sustains the multi-billion dollar junk food industry. Advertisers, marketers and scientists all collaborate to get millions of Americans hooked on food that actually harms their health. Are Wal-Mart's cheap goods addictive, too? In what ways do both systems depend on limiting our choices while appearing to provide virtually unlimited choices? How do their immediate benefits come at a longer-term cost? Why are both industries so resistant to change—in Wal-Mart's case through unionization and in the food industry through a shift to healthier fare?