# 6 An American Economy That Works for All Working Families

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For most of our nation's families, realizing the American dream depends on a healthy and vibrant economy. But a growing economy alone is not sufficient. It is also necessary that the fruits of growth be shared fairly so all working families benefit from the prosperity they create.

Today our economy is failing on both scores. The economic growth of the 1990s has come to an abrupt halt, and we appear to have entered a recession of uncertain depth and duration. At the same time, the growth of the 1990s had just begun to dent the massive increase in income inequality that beset our nation over the past generation.

The American union movement is committed to confronting both of these challenges. We will promote and support policies designed to foster renewed and sustained economic growth. And we will do all we can to ensure that work is rewarding and fulfilling; that workers are treated with fairness, dignity and respect; and that working families fully share in the benefits of a prosperous economy. Extending the bounty of prosperity to working families is not only a matter of economic fairness; it is indispensable to sound and sustained economic growth.

## Putting America Back to Work

Over the past decade, the American economy enjoyed solid growth and experienced the longest business cycle expansion in our history. The unemployment rate edged persistently lower, hitting 3.9 percent in October 2000, a level not seen in 30 years. Productivity growth accelerated in the period after 1996 and real wages began to grow once again, particularly for workers with low earnings. Poverty levels fell, and the numbers of Americans without access to health insurance began to decline. As the 20th century drew to a close, hopes were high that the tide would continue to rise and at long last lift all boats.

Full employment was the key to many of the economy's successes during the 1990s. Tight labor markets, marked by low unemployment, create the conditions that foster productivity growth and rising wages. Low unemployment rates pressure businesses both to pay workers fairly and to invest and make the best use of scarce labor supplies. Rising wages and strong employment levels, in turn, give consumers the wherewithal to purchase what is produced. Low unemployment fuels a virtuous circle of rising living standards and increasing productivity.

Low unemployment rates also yield tremendous social benefits by providing a rung on the ladder of economic opportunity to those previously excluded from the labor force. Without the opportunity to earn a living and acquire job skills, it is impossible to participate in the American dream. Falling unemployment throughout the second half of the 1990s provided this opportunity to our most economically disadvantaged citizens, and the benefits were enormous for all of us. People everywhere worked when given the chance, welfare roles shrank and economically disadvantaged inner-city areas began to revive.

Finally, low unemployment also produces major fiscal benefits. High levels of employment and rising wages increase tax revenues and reduce demand for social services. They also generate higher profits and stock market gains, which add to public revenues through corporate and capital gains taxes. As a result, the nation's finances are improved, positioning us to invest in education, public infrastructure, health care and retirement security.

In short, low unemployment is the foundation of rising living standards, greater productivity, enhanced opportunities for the most disadvantaged and sound public finances.

The AFL-CIO calls on our nation's policy-makers to take all steps necessary to bring down unemployment, which has risen sharply this year, and to move decisively toward a full-employment economy. Such steps include not only interest rate reductions but also strong governmental support for core industries, such as steel, auto, aerospace, rubber, aluminum, mining and paper, which provide first-rate jobs while bolstering the economy. Federal investments in building and boosting national infrastructure—highways and bridges, our public health and public school systems, mass transit and communications networks and airport and airline security—encourage job growth and meet important yet long-neglected needs. And encouraging or permitting the use of public monies, such as Temporary Assistance for Needy Families (TANF) grants, for public-service job creation will help put America back to work.

### Restoring the Economy Through Sound Tax and Spending Policies

A commitment to putting America back to work is especially critical in times like these, when job losses are mounting and the economy is faltering. Even before the September attacks, the national economy was almost dead in the water, and many state and local governments were in trouble. The terrorist attacks and their devastating impact on consumer confidence and consumption accelerated and amplified that downturn. The Federal Reserve Board's lowering of interest rates has had little effect on the downturn, making it essential for policymakers to use expansionary fiscal policy—tax and spending policies—to pump money into the economy to revive economic activity and put America back to work. Running a federal deficit now is not only appropriate, it is essential.

In economic downturns, the nation should pursue sound and sensible fiscal expansion policies that provide support for jobless workers and in the process help revive the economy, promote long-term growth and meet long-neglected and unfilled social needs. A top priority must be to assist workers who have lost their jobs or who have experienced significant cuts in work hours. Assisting workers is not only the right thing to do, it is the best economic stimulus, because it puts money into the pockets of those who will spend it, thereby bolstering economic activity. Improving unemployment insurance benefit levels and their duration is a proven recession-fighting tool. The federal government also should help defray health care costs for jobless workers and increase funding for high-quality job training. Similarly, targeted tax relief for low- and middle-income households is an economic spur, because these families need and will spend the money to meet basic needs.

We must also step up federal investments in building, upgrading and updating the nation's public infrastructure to help create jobs, meet critical shortages and boost the economy. In addition, we must provide aid to state and local governments, which are often particularly hard hit during downturns. Many state governments are constrained by balanced budget requirements, and as their revenues decline in a slowing economy they face cutbacks in state spending that only amplify the downturn and prompt further job loss.

Some temporary tax breaks for corporations may also be appropriate responses to downturns, but these efforts should be targeted carefully to help companies and sectors specifically in need of stimuli. Policymakers must resist new corporate tax cuts that have little or no fiscal stimulus, that are expensive and contribute to future budget deficits and that are profoundly unfair in benefiting largely the most well-off. The experiences of the 1980s taught us that "trickle down" theory does not work; new tax breaks for the well-to-do should be off the table in discussions of economic recovery.

The AFL-CIO and its affiliates will support and promote economic recovery policies that deploy the federal government's taxing and spending powers in a manner that elevates the needs of working families and the economy overall. We will consistently oppose tax cuts and tax breaks that do not meet the current or future needs of working families or the nation's economy.

### *Addressing America's Industrial and Manufacturing Crisis*

The AFL-CIO believes we will not have the best and strongest economy possible unless we take prompt and effective steps to address America's industrial and manufacturing crisis. The nation's manufacturing industry is in a deep and long-lasting crisis that already has cost us millions of good jobs and that threatens our nation's present and future prosperity. Manufacturing employment is now down to levels not seen since 1965; we have lost more than 1 million manufacturing jobs since July 2000. Even in the 1990s, when the economy produced more than 20 million new jobs, manufacturing employment did not grow. In July 1991, there were 18.4 million manufacturing jobs. Ten years later, there were 17.4 million. In some industries, such as steel, those losses came on the heels of massive workforce reductions that occurred during restructuring in the 1980s, a period in which that industry alone lost 237,000 jobs.

In many ways, manufacturing has been the heart and soul of the American economy. For decades, our nation's strong manufacturing base helped us realize our collective goal of ensuring that living standards and lifetime opportunities for each new generation of Americans were better than those enjoyed by the previous generation. For many workers, manufacturing provided the best jobs with the best wages and benefits, opening the door to the middle class for millions. The loss of manufacturing jobs has slammed this door shut for many. This is a crisis that threatens living standards today—and even more for tomorrow.

The manufacturing crisis is not the result of a failure of American manufacturers or workers. It reflects, instead, the failure of economic and trade policy. For the past 20 years, policymakers have failed to put adequate priority on manufacturing. They have negotiated unequal trade agreements that have left our markets open to domination by the predatory policies of our trading partners, many of whom have kept their markets closed to U.S. exports. These inequities have resulted in the export of hundreds of thousands of jobs beyond our borders, many of which are subjected to the most egregious repression of workers imaginable, including child labor, slave labor and prison labor. The threat to export still more of these domestic manufacturing jobs is a club used by employers to intimidate our affiliates and workers during bargaining and organizing campaigns.

The Federal Reserve Board and the U.S. Treasury also have persistently neglected the dollar, allowing it to appreciate massively against the currencies of all our trading partners, putting our manufacturing industries at enormous competitive disadvantage. Manufacturers have been implicitly encouraged to shift production offshore to take advantage of depreciated foreign currencies. And this incentive has been amplified by trade agreements that fail to incorporate workers' rights and environmental standards, fostering a race to the bottom, with business chasing the most exploitable workers and degradable environments to gain competitive advantage. The result of all this is massive loss of manufacturing jobs, stagnating wages, worsening income distribution, destruction of a vital avenue to prosperity for millions of working families and a record trade deficit that exposes our economy to the destructive forces of international financial turbulence.

The impact of the assault on American manufacturing is visible in every industrial sector, from automobile production to steel, from aerospace to paper, lumber and textiles. The damage is acutely evident in the American steel industry, where prices have collapsed to 30-year lows, 25 companies have been forced into bankruptcy since 1998 and the predatory practices of our trading partners have become so pervasive that the International Trade Commission (ITC) recently rendered a rare 6–0 unanimous ruling of injury on the basis of facts presented to it by the Steelworkers and the steel industry. Unfortunately, the price deflation and devastation being experienced by the American steel industry, steel workers and steel communities may prove more the rule than the exception in manufacturing in the face of a recession that will continue to gather force unless action is taken to open capital markets, improve federal loan guarantees and fund public budgets. The entire American union movement recognizes that restoring our manufacturing base is an essential first step in resurrecting the prospects of economic security for all working families. We know the injuries inflicted on this core industry are an injury to us all.

To that end, the AFL-CIO and its affiliates call on Congress and the administration to act immediately, aggressively and effectively to remedy the crisis in manufacturing and revitalize this critical sector of our economy. Our leaders must address the concerns and interests of manufacturing workers, rather than the interests of U.S.-based and foreign-based multinational corporations alone, in the nation's trade agreements. The United States must vigorously enforce all of its trade laws, including workers' rights provisions, and amend such laws to ensure fair trade. We must initiate trade cases to stop the market-distorting importing of goods subsidized by our trading partners or, worse yet, dumped in the United States below the cost of production to secure greater market share. Furthermore, we should make full use of Section 201 of the Trade Act of 1974, in such sectors as steel, auto and aerospace when import surges injure domestic industries, and cases under Section 301 of the same law, when workers' rights violations cause injurious competition. When, as in steel, the International Trade Commission finds that dumping or other unfair practices have damaged an American industry, strong remedies must be recommended—and the president must implement them.

Additionally, the United States should focus on the trade balance as the measure of success in negotiating auto trade agreements, setting firm targets to reduce the deficit; take forceful action to stop the unfair trading practice of offsets, especially prevalent in aircraft trade; and enforce any remedies determined necessary as a result of petitions against unfairly traded Canadian lumber imports. We should renegotiate the North American Free Trade Agreement (NAFTA) to dramatically strengthen its labor and environmental side agreements and significantly improve its provisions in such areas as cross-border trucking, auto trade, investment rules and apparel import surges, and strengthen its labor and environmental side agreements. And if we cannot renegotiate it to solve these problems, it should be scrapped.

Finally, we call on the government to repeal tax code provisions, such as the foreign tax credit and the deferral of taxes on foreign profits, that encourage companies to shift jobs and grow manufacturing offshore. We must bring down the value of the dollar to remove the price disadvantage imposed on American manufacturers. When exercising its procurement power, the federal government should follow "Buy American" and "Buy New York" policies. And, to relieve pressures on manufacturers, the federal government should make capital available to small and mid-sized manufacturers and recognize and compensate for the competitive disadvantage American manufacturers experience because of the benefits many provide their employees and retirees. We should strongly encourage federal tax and loan guarantee policies that restore the financial viability of manufacturers damaged by the anti-competitive practices of our trading partners, and in particular should support federal action to defray costs incurred by companies supporting negotiated health insurance coverage for retirees, since these and other social costs are subsidized by the governments of their competitors throughout the world.

## ***Improving Service-Sector Jobs***

Over the past decade, media attention has focused on the so-called new economy, with its high-tech advances in computers and biotechnology. But in reality the service economy has generated the bulk of new jobs. Between 1992 and 2000, total employment grew by 23.2 million, of which 20.7 million jobs were in the service sector.

Job growth in the service sector is really a tale of two cities. Much recent and projected growth is in higher skill professional and technical occupations that typically require advanced training and degrees. Many of these jobs are secure, pay well and offer tremendous opportunities for career growth and development. But that is not universally the case. In higher education, for example, colleges and universities increasingly rely on part-time and adjunct faculty to cut costs. Many of these instructors work from contract to contract, often stringing together multiple part-time arrangements for which they earn only slightly more than poverty wages and receive no benefits. Large numbers of professional and technical workers in the information technology sector are in temporary or contract jobs, which again provide no benefits or job security and often pay less than comparable permanent positions. And many workers in some professions—doctors and other medical specialists, social workers, psychologists and real estate appraisers, among others—earn good incomes but have little access to affordable benefits and no job protections because they are independent contractors. For many reasons, professional and technical workers also encounter great difficulty in exercising a voice at work by organizing into unions.

The AFL-CIO and its affiliates are committed to securing workplace rights and protections for professional and technical workers. We will explore and implement innovative strategies for organizing and representing professional and technical workers in part-time, temporary and contract arrangements. We also will work for legislative reforms that enhance protections for these workers and oppose legislation that makes it easier for employers to marginalize them further.

Many lower-paid service jobs lack health insurance, pensions and decent working conditions. These jobs, which often pay little more than the minimum wage, include sales and clerical positions. They also include private household jobs and jobs in food services, health services, cleaning and building services and personal service. The jobs are often part-time and frequently are dominated by women and minority workers. Almost 98 percent of child care workers are women. Almost 40 percent of cleaners and building service workers are Latino. Fully one-third of nursing aides, orderlies and attendants are African American.

The growth of these low-wage jobs has provided employment opportunities, but it also has contributed to widening income inequality.

Low-wage service employment is not going to disappear. There is no high-tech way to scrub a floor or clean a bathroom, to serve food to individual customers in a restaurant or to attend to the personal care needs of the elderly and people with disabilities. Employment growth in low-paid, service-sector and related jobs will match or exceed high-tech and related employment growth for at least a decade. The occupation projected to add the greatest number of new jobs between 1996 and 2006—more than half-a-million new positions—is "cashier." There will be more new home health aides, teachers' aides and nursing aides than new computer engineers or database administrators. Today, more than half the workforce labors in low-paid, low-skill jobs; 20 years from now, a roughly equal percentage will continue to do so.

Through organizing, bargaining and legislative advocacy, the AFL-CIO and its affiliates will work to extend education and training opportunities to low-wage service workers, but equally important—perhaps even more so—we will push for improved wages, benefits, working conditions, job security and access to safety net protections such as unemployment insurance for these workers. Just as we are committed to shoring up the nation's manufacturing base and protecting the jobs of millions of workers in that sector, we also are committed to ensuring that service jobs are good jobs. We believe all work has dignity and all workers are entitled to dignity, respect and fair treatment. Low-wage workers perform invaluable services in our society, and they should not have to change jobs to be treated fairly.

### *Valuing the Role of the Public Sector and Investing to Meet Public Needs*

Administration budget policies have the nation set on a path that will cut public-sector investment and freeze the provision of government services even as the population increases and needs grow. The budget policies go hand in hand with a push to privatize the administration and delivery of public services and benefits. Both reflect an ideology that is rooted in a fundamental misunderstanding of or hostility to government's indispensable role in promoting the public good and fostering prosperity and a view that the private sector's performance is always superior to that of the public sector.

A modern economy needs a strong public infrastructure and investment in public education to succeed. And it needs a strong and well-trained public sector that provides vital public goods—such as governance, security and public health—that the private sector is unable or unwilling to provide efficiently or sufficiently, either due to resource constraints or because its primary goal of maximizing profits is inconsistent with the overriding goal of serving the public. Nothing brings home the central role of government in providing critical public services better than the tragic events of September, which also revealed the importance and vulnerability of the nation's physical infrastructure, including our systems of rail, air and highway transport and mass transit. This tragedy forces us to rethink issues of public service administration and delivery, physical security, adequacy of public investments and how infrastructure spending relates to economic growth.

The AFL-CIO and its affiliates reaffirm our commitment to a strong public sector, staffed with experienced, well-trained and well-compensated public employees. Public employees are not nameless, faceless bureaucrats. They are the firefighters and police officers who rushed into the Twin Towers to rescue others, heedless of the risks to themselves. They are the paramedics, ambulance drivers and other emergency personnel who raced against time to save as many lives as possible. They are the public school teachers who have counseled and comforted our children during this period of deep national crisis. And they are the social workers and caseworkers at the local unemployment office who are working hard every day to help so many put their lives back together again. Many of these women and men hail from our ranks, and we are proud of the work they do each and every day to make America a stronger and better nation.

The AFL-CIO believes the underlying purposes of taxpayer-funded public health, safety and social insurance programs are best fulfilled when public employees administer these programs. Failed experiments in privatization, such as some of the notorious abuses arising from for-profit administration of welfare programs, underscore that shifting work out of the public sector does not guarantee successful program administration or accountability, nor does it always save money. Indeed, in the long term privatization often costs taxpayers more. We will continue to resist attempts at the federal and state levels to shift responsibility for administration of public programs and delivery of public services and benefits to the private sector.

The AFL-CIO and its affiliates also believe the nation must step up its investments in restoring and improving the country's physical and social infrastructure. The need for such investments was a prime reason we opposed this year's wrongheaded and costly tax cut, which robbed the nation of valuable resources we could have put to good use in rebuilding infrastructure. We call again for Congress to revisit and repeal some elements of that tax cut, including the top rate reductions and the phase-out of the gift and estate tax.

Now more than ever in recent memory, there is much to do. Both the nation's security interests and good economics call for investment in transportation infrastructure to ensure we do not lean too heavily on a single or only a few modes of transport. Moreover, investments such as these are a valuable source of job creation. We must invest in the air and marine transportation systems, airline security and air traffic control. We must maintain and improve the condition and performance of rail facilities, subways and bus systems and modernize Amtrak, including its facilities for high-speed rail service. We must expand and better maintain highways and bridges. Shipping channels in coastal ports should be deepened, and the inland system of locks and dams modernized. And we must invest in building, renovating and modernizing our public schools to ensure the productivity and competitiveness of our future workforce. Only government has the resources and motivation to incur the massive capital costs involved in making such investments; we call on the federal government to put the needs of America's working families first and to make those investments now. And the federal government has the responsibility to construction craftspeople to include federal prevailing wage protections, pursuant to the Davis-Bacon Act and related acts, to all federal infrastructure spending. Further, the federal government should allow for the use of project labor agreements, when in the best interest of workers, for use on federally assisted construction projects.

The nation also faces serious emerging issues such as the adequacy of our public health infrastructure and our wastewater and drinking water systems to deal with possible bioterrorism and other threats. At the same time, we must address the national crisis in health care if we are to regain economic stability for families and the nation. Education is critical in a knowledge-based economy, but accumulation of human capital requires substantial public investment in education. To build and maintain a strong and vibrant economy and democracy, the nation must invest in America's public schools and provide every child a place in a modern, wired classroom.

In addition to the need to address significant infrastructure deficits, the AFL-CIO and its affiliates believe the nation must craft a new national energy policy. Reliable, affordable and accessible energy is key to our national defense and the lifeblood of the manufacturing, transportation, construction and service industries. National energy policy must enhance our energy independence, create and maintain good jobs and protect our environment. Achieving these goals necessarily will involve plans to increase energy production, modernize our energy infrastructure and increase our investment in energy efficiency and conservation. Fuel diversity that relies on a full range of energy options should be the touchstone of national energy policy.

We should also review electricity restructuring and its impacts on consumers, workers, firms and governments to ensure a reasonably priced, reliable and safe supply of electrical energy.

The union movement calls for renewed investment in our cities to preserve and to build upon their strength. According to the year 2000 census, eight of every 10 people live in metropolitan areas. These areas are vital centers of economic activity and opportunity. All levels of government—federal, state and local—have critical roles to play in revitalizing cities by promoting public and private investments in affordable housing, transportation and job creation (including public-service jobs) and job training. Investments to reclaim so-called brownfields can improve the quality of life as well as generate good jobs. Support for education and training, transportation to jobs and child care can help inner-city residents gain access to jobs and former welfare recipients achieve independence. Combined, these public policies and investments will help sustain and boost the economies of cities and the nation as a whole. Further, we must commit to rebuilding New York and other cities that have suffered so greatly as the result of the Sept. 11 attacks.

## Shaping Tax Fairness for Working Families

Much of the past decade involved a process of fiscal repair to fix problems arising from the Reagan-Bush era of big budget deficits. The fiscal discipline and strong growth of the 1990s turned the budget deficit into a surplus and created an historic opportunity to invest in America through spending on public education, health care, infrastructure and Social Security. That opportunity, however, was squandered by this spring's poorly designed tax cut.

A good tax system should raise sufficient revenues to meet public spending needs and should do so fairly, in a manner that imposes low costs on both the public and the administrative collection system. The system should be designed to avoid long-term deficit problems, which add to interest burdens. Tax revenues should move with the economy, rising in booms and falling in recessions. This helps stabilize the economy by reducing spending in good times and increasing it in bad times. This year's tax cut fails several of these tests. It is unfair to most working families because it is heavily skewed toward the richest 1 percent; it so depletes revenue streams that future budgets will lack the resources to invest in America to meet the challenges that lie ahead; and the scale of the tax cut once again has created a prospect of future deficits.

The AFL-CIO believes the tax system should be reformed so that corporations and the wealthy pay their fair share, enabling the nation to meet its education, health care, infrastructure, energy, environmental and other public investment needs. Taxes should be progressive, with higher-income households taxed at a higher rate than lower-income households. This is only fair because higher-income households reap the economy's biggest rewards. Interest, capital gains and other forms of capital income are taxed preferentially compared with wage income. Capital income should be taxed in the same manner and to the same extent as workers' hard-earned wages; Americans who work for their money should not be taxed more heavily than those whose money works for them. Corporations, whose tax burden has declined substantially in recent decades, must shoulder a fairer share of the nation's tax bill.

The AFL-CIO strongly opposes any further unwarranted tax cuts for the richest among us or for corporations. Proposals for a "flat tax," national sales tax or value-added tax, as well as for further cuts in taxes on capital gains, are unfair, regressive schemes that should be rejected. Such cuts would shift even more of the nation's tax burden to working Americans while lowering taxes for wealthy investors. Corporate tax gimmicks such as the foreign tax credit, transfer pricing abuses, deductions for expenses of mergers and acquisitions and deferral of taxes on foreign profits are among the many examples of job-destroying and wasteful corporate welfare we should end. The alternative minimum tax, both for corporations and individuals, is necessary to ensure fairness; Congress should not repeal it. The misguided withdrawal of U.S. participation from the Organization for Economic Cooperation and Development and other multilateral efforts to prevent abuses related to so-called tax havens internationally should be rescinded. Withdrawal from this OECD initiative was a bad idea even before the September attacks put tracking terrorists' international money trail on the front burner. Finally, Congress should restore resources sufficient to allow adequate tax enforcement by the Internal Revenue Service.

We also oppose and call for an end to wasteful and inefficient tax competition among government jurisdictions to lure or retain investment and jobs. Whether between cities, counties, states or sovereign nations, this competition has fueled a "race to the bottom" that generally has not translated into good jobs for working families or an improved tax base for local communities. At the state and local levels, the union movement supports progressive income taxes over regressive sales or property taxes as a means of raising revenues. Where sales taxes exist, however, e-businesses should not be exempt from the same requirements to collect and remit taxes that apply to conventional bricks-and-mortar businesses. Exempting e-businesses from sales taxes gives them an unfair competitive advantage over conventional retailers and also reduces revenues available to state and local governments.

## *Regulating in the Public Interest*

The past 20 years have witnessed an unrelenting drive for deregulation. In part, this movement reflects an interest in promoting competition, but much of it stems from a hostility toward any governmental regulation, even when public health, safety or well-being are at stake. The deregulation movement presumes that unfettered markets always trump governmental regulation as the source of wise and sound decisions. The reality is that good regulation means getting the right mix between market and government—a mix that promotes market efficiency and innovation but at the same time imposes reasonable limits to protect the public interest. Regulation must be dynamic and evolving; rules must change in response to innovation. Policy should promote competition but distinguish between good competition, which advances the public interest, raises living standards and promotes economic efficiency, and bad competition, which works in the opposite direction.

Our whole experience teaches us that, left to themselves, wholly unregulated markets do not invariably promote good competition, and they may actually foster destructive practices that harm rather than help. For example, absent appropriate regulation, many businesses would compete for business by lowering wages and working conditions rather than by improving productivity and product quality. Regulation is designed to prevent that result and has an important role to play in both the domestic and international spheres, though the particulars may differ in each.

The perils of deregulation are compounded when businesses interfere with private efforts to rein in excesses and government turns a blind eye to such business interference. The failure to understand or support the role of trade unions in the proper functioning of a healthy and dynamic economy is a classic example. Trade unions keep living standards and workplace conditions out of competition, forcing firms to focus on price and quality competition. Yet instead of recognizing this public-interest dimension of trade unions, private interests and some policymakers have worked to undermine them. The result is that markets have turned upon working families, who were supposed to be the beneficiaries of deregulation.

California's recent energy crisis vividly illustrates the failings of deregulation. That experience not only injured California but also raised wider concerns about the reliability of the nation's electric power system and the adequacy of national energy policies to secure a safe, reliable and affordable energy supply. While many factors contributed to the California situation, the root causes were the flawed markets and abusive behavior by merchant generators. There is considerable evidence that unregulated power generators and marketers manipulated and gamed California's wholesale hour-ahead (spot) and day-ahead markets. Similar abuses have surfaced in other restructuring states, such as Montana, New York and Massachusetts.

It is also becoming clear that because of the unique nature of electricity, which cannot be stored to balance supply and demand, deregulated competitive electricity markets are prone to both extreme price fluctuations and market abuses by power generators, especially during times of tight supply. In addition, electricity deregulation creates significant uncertainties that discourage construction of new power plants. Deregulation also has begun to unravel the system of voluntary regional coordination maintaining the reliability of the nation's aging transmission grid. And deregulation has cost jobs: investor-owned, bottom-line-driven electric utilities have eliminated more than 25 percent of utility workers' jobs since 1990, hurting workers and undermining electric power system reliability. The upshot of our experiments with electricity deregulation is that the utility workforce is stretched thin, critical facilities and equipment maintenance are ignored or deferred and system safety has been compromised.

Whatever the original and more benign objectives of electricity deregulation, the disastrous experience in California has served as a wake-up call about the potential of deregulation for harming consumers, workers, companies, communities and states. The lessons from this experience in a single industry in one state have broader applicability in other areas where private interests, often with the full support of the federal and state governments, pursue deregulation of an important public service or good.

For these reasons, the AFL-CIO and its affiliates urge federal and state policy-makers to apply more rational and sound principles in determining whether to move ahead on deregulation in specific areas, whether involving electric supply or other public goods and services. In all such cases, the key consideration should be whether deregulation will promote and further the broad public interest or serve primarily to advance private gain.

## Correcting Failures at the Federal Reserve Board

The Federal Reserve Board has moved quickly and appropriately to lower interest rates this year in response to rising unemployment. But it has failed to use monetary policy to achieve permanent and stable full employment. Instead of keeping interest rates low to encourage full employment, from June 1999 to May 2000 the Federal Reserve raised interest rates six times in a fight against phantom inflation and to control stock market speculation. Workers now are paying with their jobs for the excesses of financial markets and the failures of the Federal Reserve.

Now more than ever, the Federal Reserve should openly recommit itself to reaching a 4 percent unemployment goal. The experience of the 1990s shows that low unemployment is consistent with stable low inflation and strong economic growth. The AFL-CIO calls on the Federal Reserve to embrace the goal of full employment and to reject the notion of a natural rate of unemployment exceeding 5 percent.

Financial deregulation and innovation have stripped the Federal Reserve of most of its policy tools for influencing finance and credit, leaving it with just the economic blunderbuss of interest rates. The Federal Reserve has done nothing to remedy this situation because of its belief that markets are always rational and stable. As a result, when the Federal Reserve has attempted to rein in asset markets using interest rate policy, it has ended up damaging the entire economy.

The lesson is that financial markets are imperfect and far from rational. Rules for financial transparency and accountability are needed, but the Federal Reserve must also have the ability to intervene in particular financial markets when they go awry.

The Federal Reserve also has failed to deal with the problem of an overvalued dollar, which is further eroding our manufacturing base and costing us hundreds of thousands of good manufacturing jobs. There is every indication that the overvalued dollar is undercutting the Federal Reserve's attempt to help the national economy by cutting interest rates.

The Federal Reserve must recognize the damage the overvalued dollar inflicts on our economy and take appropriate steps within its power to bring the dollar down to a reasonable level. Thereafter, the dollar must be maintained in stable fashion at this appropriate level through internationally coordinated policy. Other countries must be stopped from intervening in exchange markets to gain competitive advantage, and the G-7 governments must work together to create a climate of global growth fueled by rising demand. We have created a global trading economy, and a necessary piece of making that economy work for America's working families is that exchange rates respond to underlying trade deficits.

Restoring the nation's economy is key to creating and sustaining economic security for working families now and in the future. America's working families and their unions worked long, hard and ever more productively to build the economy we enjoyed in the 1990s; we are ready to work just as hard to rebuild the economy. But we cannot do it alone. Therefore, we will continue to push for policies to reduce unemployment, restore the economy, help revitalize the manufacturing base and improve service jobs. We also will fight for greater protections for the public sector and greater investments in public infrastructure, tax fairness and more rational deregulation policies. All are essential components of sustained economic recovery and growth.