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WEBINAR

PROFITS AND THE PANDEMIC: BUILDING A MORE EQUITABLE MODEL OF CAPITALISM

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PARTICIPANTS:

Opening Remarks:

MOLLY KINDER
Fellow
Brookings Metro

Keynote Remarks:

BHARAT RAMAMURTI
Deputy Director
National Economic Council

Panel Discussion:

MICHELLE EISEN
Organizing Member
Starbucks Workers Union (Buffalo)

MICHELLE HEJDUK
Member
Starbucks Workers United (Mesa, AZ)

Fireside Chat: Corporate Perspectives

KATIE BACH
Nonresident Senior Fellow
Brookings Metro
Chief Development Officer
&pizza

RICK WARTZMAN
Head, KH Moon Center for a
Functioning Society
Drucker Institute

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P R O C E E D I N G S

MS. KINDER: Hello, and welcome to today's event, Profits and the Pandemic: Building a more equitable model of capitalism. I'm Molly Kinder, I'm a fellow here at the Brookings Institution's Metro Program. And along with my colleagues Katie Bach and Laurie Statler, I'm one of the co-authors of a report that we're going to be discussing today.

Before we get started with the program I first want to thank everyone in the audience who's already sent us some great questions. We welcome everyone to engage in today's discussion on Twitter by using #Pandemicprofits. You can send us questions directly through that Twitter thread or you can email us at Events@Brookings.edu with your questions.

I'd also like to thank our funders, the eMedia Network, Families and Workers Fund and the Open Society Foundation for their generous support of this research.

Before I turn over to our keynote speaker today I wanted to share a little bit about the findings of this report that Laura, Katie, and I have just published. When we started this project just under a year ago we asked a really big question. We wanted to know is now finally the moment that America's biggest corporations are going to turn the tide against decades of inequality where we've seen the wealth increasing get wealthier and workers falling further and further behind.

Now we didn't know where our analysis would take us and what we would conclude. But we had a lot of reasons for optimism. When Katie, Laura, and I started this we were just over a year into the pandemic and this was a time when society's eyes were opened. Not just to the sacrifices of low paid essential workers, but about their value and their need for higher wages.

Big companies had just made bold pledges around the concept of stakeholder capitalism as well as around racial equity. And not long after we started this project the labor market tightened and employers had been pushed to raise wages at least nominally for hourly frontline workers. And finally, corporate profits have been record high, giving companies ample resources to invest in workers.

So what Katie, Laura, and I did was take a big step back. We spent a year researching 22 of the leading companies in this countries that collective employ more than seven million workers in sectors like retail and grocery, hotels, fast food, delivery. And what we wanted to know is are these companies seizing the opportunity of this moment to finally make real change for workers.

We looked at the first 22 months of just under two years of the pandemic. And we looked at pay practices and financial outcomes. Unfortunately what we found was very disappointing. Despite all the potential of this moment, we found that nearly every company in our analysis fell short of their commitment and the system has actually changed very little. And I'm just going to lay out three of our key findings.

Our first is that overwhelmingly the financial gains of success during the pandemic benefitted wealthy shareholders and executives while workers really only shared minimally in this success.

Now when I think about our report I think the most striking finding that we have is that if you look at just those 22 companies in the first 22 months, they generated a trillion and a half dollars in additional wealth for their shareholders. And that was over 50 times all the extra pay that went to the seven million workers who worked there.

Second, we found that despite all the hype and hope about rising pay for workers, the reality is that the vast majority of workers at these companies today still don't earn enough just to get by. In fact we found that at most, five out of the 22 companies met what we think is actually a fairly minimal bar, which is do they pay at least half of their workers what we call living wage. Enough just to pay your basic expenses and nothing more.

So since the start of the pandemic we found wages were up on average about 2 to 5 percent through October but the fast-rising inflation since then probably made that even smaller.

And finally, when we looked at the companies that were actually hard hit in the pandemic, especially in that first year, experienced financial losses, it was the frontline workers that bore the worst economic pain from those losses through furloughs and layoffs and lost income. While shareholders were much more insulated, and in fact almost half of those companies changed the way they calculated CEO pay so that tens of millions of dollars in CEO pay still went to those executives despite the poor financial performance.

Now not every outcome that we just described is fully the responsibility of these companies. However, when we looked at the choices companies made, it was clear that the companies were making choices that favored shareholders, sometimes at the expense of workers. And one of the clearest examples of this is around shareholder returns in the form of dividends and stock buybacks.

We found that companies spent five times more rewarding their shareholders by giving them dividends and stock buybacks, than they did on raising pay. And if just of the companies that did stock buybacks during the pandemic, had they instead taken that cash and used it to invest in their workers, on average they could have raised the median pay for their typical worker by 40 percent.

Now none of these outcomes that we just described that were so lopsided and so inequitable, none of this was inevitable. In fact we have at least one example in our report, Costco, as a company that did voluntarily take the high road with really good wages, with high productivity, and still company success. However, what we found in tuning in to over 100 earnings calls and listening to the questions that investors asked and exploring the pressures and incentives that companies are facing, overwhelming the system pushes companies to maintain the status quo, to reward shareholders in the short run and not to invest in workers.

So what Katie, Laura, and I believe is that in order for us to move to a more equitable capitalism we can't wait for companies to voluntarily do the right thing. What we need is a rebalancing of power between workers, between companies, and between shareholders. And the only way we're going to get there is if we have serious policy reforms.

And in our report we lay out four specific policy recommendations that can help us get there. And they include higher minimum wages, giving workers a greater voice on corporate governance, importantly, labor law reform, so it's easier for workers to organize and form a union. And finally, greater pay transparency so that we can all do a better job holding companies to account for some of these pledges.

Now there's almost no one I can invite now who would be better at reflecting on the policy reforms needed for a more equitable form of capitalism than our keynote speaker Bharat Ramamurti. Bharat is currently the Deputy Director of the White House National Economic Council. He comes from years of experience in the Senate and Congress working on some of these very policy areas with an eye towards greater equity.

And with that I'm delighted to welcome Bharat to give his keynote remarks.

MR. RAMAMURTI: Thanks so much, Molly, for inviting me here today and for that really kind introduction. I'm grateful to Brookings and to Molly and to Katie and to Laura for the work that they have put into this important and powerful new report.

Three years ago the large American corporations that make up the Business Roundtable announced a new statement on the purpose of the corporation. Rather than focusing exclusively on maximizing shareholder returns, they would seek to balance the interests of all their stakeholders, including their customers, employees, suppliers, and the communities that they served.

At the time the announcement was hailed as a significant change in approach. Many viewed this statement as a long overdue acknowledgement as a single-minded focus on shareholder returns needed reform.

Today’s report is the latest evidence that this supposed change in corporate purpose has delivered far less than it promised. The report also suggests that corporate commitments alone are unlikely to produce meaningful reform of corporate behavior no matter how well-meaning those commitments may be.

That is why this Administration is pursuing legal reforms to ensure that workers and other corporate stakeholders are more likely to share in corporate success.

In my remarks today I want to explore how we got here, our relentless focus on maximizing shareholder value has hurt American workers, and undermined American growth and innovation, and what we can do to better align the interests of corporate decision makers with the long-term interests of the American economy and its workers.

So let’s start with the very basic question. What is the purpose of the American corporation? That answer has shifted dramatically over time. Bear with me, but let me start with the early days of the American republic.

Two hundred years ago state legislatures would grant corporate charters individually. In exchange for agreeing to fulfill some important public purpose, like building a road, the new corporation would receive a time limited charter that conferred certain legal privileges, like limited liability for the owners. Once the corporation fulfilled its public purpose the charter would end.

Over time of course that process grew less constrained. Obtaining a corporate charter didn’t require legislative approval, the charters would last indefinitely. But the idea that a corporation owed a public duty remained. In fact as late as 1981 the Business Roundtable Statement on the purpose of the corporation said, “A corporation’s responsibilities include how the whole business is conducted every day. It must be a thoughtful institution which rises above the bottom line to consider the impact of its actions on all, from shareholders to the society at large.”

But around that time a new concept was taking hold, shareholder privacy. The basic idea was that the sole purpose of the corporation must be to maximum wealth for shareholders. And in a matter of years that concept displaced the broader stakeholder model of the American corporation and became the mantra in business schools and in board rooms.

You can trace the evolution by seeing how the Business Roundtable’s Annual Statement of Corporate Purpose changed. By 1997 it read that the principal objective of a business enterprise is to generate economic returns to its owners.

That shift in corporate purpose has affected how trillions of dollars flow through the American economy. And now we can see what it has delivered.

First, the focus on shareholder value tends to produce less business investment, which in turn contributes to less innovation and productivity gains. Up until the early 1980s American corporations reinvested roughly half of their profits in greater production, R&D, and long-term growth. But over the past decade they have directed roughly 100 percent of their earnings back to shareholders in the form of buybacks and dividends.

One study has found that in the 1960s and the 1970s, an additional dollar earnings or borrowing was associated with about a 40-cent increase in investment. Since the 1980s however, less than 10 cents of every borrowed dollar is invested. Fewer dollars dedicated to investment means less innovation and lower productivity gains.

Second, this shift in corporate purpose has contributed to growing inequity and quality by putting more earnings in the hands of the wealthiest Americans and less in the hands of the workers that help generate them in the first place. We shouldn't sugar coat this fact.

But corporations say that their goal is to maximize shareholder value, what they are saying, in effect, is that their purpose is to maximize wealth gains for the richest slice of Americans.

The top 10 percent of households own nearly 90 percent of all U.S. stocks. Meanwhile the bottom 50 percent of households own essentially zero percent. No 401K, no IRA, no investment account. When share prices go up they don't benefit. Meanwhile there's evidence that the aggregate sectorial and firm level that the shareholder privacy is associated with wage stagnation. We see those trends clearly reflected in this terrific report.

The authors find that among the large companies studied, more than 70 percent of the wealth generated for U.S. shareholders benefited the richest 5 percent of Americans, or six million families. While only 1 percent accrued to the bottom half of all American families. In total there were $1.5 trillion in wealth gains for shareholders, while the seven million workers that these companies employed earned only $27 billion more during the same period.

A third big indication is that when things go bad for corporations, workers suffer first. But when things go well shareholders and executives benefit first. Among the companies studied in this report, tens of thousands of workers were laid off as the pandemic and recession hit. Meanwhile nearly half of the companies changed their compensation rules to protect millions of dollars in CEO compensation and more than half paid out more than tens of billions of dollars as stock buybacks.

In sum, what we have seen since the 1980s is a dramatic shift in corporate purpose that has been good for the very wealthiest Americans household but not so good for workers or for the economy overall. And it's apparent from today's report and a slew of other empirical research that the 2019 commitment from America's largest corporations to change their ways, has not resulted in a meaningful shift in their behavior.

So what can we do about it? The President has been clear that he has no problem with businesses making money as long as they're following the rules. But he's also been clear that it should mean something to be an American corporation. And that if workers and other corporate stakeholders should more fairly benefit from the corporate success that they help create.

I want to quote him directly here. In 2020 he said "It is way past time to put an end to the era of shareholder capitalism. The idea that the only responsibility a corporation has is to its shareholders. That's simply not true, it's an absolute farce. They have a responsibility to their workers, to their community, to their country. This isn't a new or radical notion, these are basic values and principles that help build this nation."

We here in the Administration are committed to carrying out the President's vision. Today's report identifies several potential ways to shift these trends that are in line with the President's call for reform. Each of them is worthy of consideration. But I want to highlight some of the ideas that the Administration is pursuing.

First, American workers should have more power in their workplace as a counterbalance of the influence of shareholders. Across the Administration our agencies are working to ensure that companies that receive federal dollars treat workers fairly. And the Administration has launched an all-government approach to facilitating worker organizing and collective bargaining.

The President is also calling on Congress to pass the Pro Act and make it easier for workers to join a union and bargain for their fair share of corporate profits.

Second, we are pursuing stronger disclosure rules so that it's clear which companies are putting their money where their mouth is. And so that investors allocate capital in ways that are aligned with the long-term success of our economy.

Third, we need to change the financial incentives that push corporation decision makers towards stock buybacks instead of other uses of corporate funds. Right now executives have huge financial incentives to dedicate corporate profits to buybacks. Executives at large firms are compensated mostly in stock, and stock prices jump after a buyback announcement. SEC research shows that executives can and do take advantage of these price bumps to sell their own shares in the aftermath of a buyback. Overall executives are twice as likely to sell stock in the days following a buyback and sell five times more stock during that period than they do at other times. That specific conduct is associated with bad outcomes for all of the firm stakeholders, including shareholders.

Research has found that these higher insider sales are associated with lower company returns over the next two to three years.

That's why the President has called on Congress to restrict the ability of executives to sell company shares in the period following the stock buyback. That new limitation will ensure that executives' financial interests are better aligned with the long-term interests of the corporation and its workers.

I want to be clear. These proposals that we are pursuing are not about trading worse corporate performance and less growth for more fairness. They are about creating the conditions for more growth, more innovation, stronger corporate performance and better paying conditions for workers too.

Let me close by saying that this is a powerfully important report and I hope that policy makers will look carefully at all of its findings. The President has said that he is committed to rebuilding our economy from the bottom up and from the middle out. And I think addressing the issues in the report are at the heart of that effort.

So thank you again for having me here today.

MS. KINDER: Great. Thank you so much, Bharat, those are very powerful remarks that it's really encouraging to hear about the commitment from the White House to workers, to worker power, to a more equitable form of capitalism. So thank you for those remarks and the work that you're leading.

MR. RAMAMURTI: Thanks, Molly.

MS. KINDER: Thank you. Now I'm really delighted for the next segment of this event where we're going to be welcoming two inspiring Michelles. I'm delighted to welcome Michelle Hejduk and Michelle Eisen to join me right now in a discussion about the centrality of worker power.

Now we just heard from Bharat how much the President and the White House, how much a premium they place on worker power, worker organizing, collective bargaining, as part of this equation for a more equitable economy, which is also what is reflected in our report as well.

You know these are really important principles but ultimately it comes down to whether workers can actually exercise this ability. And this conversation is so exciting because the two Michelles, we're going to call them Michelle H. and Michelle E., are the pioneers of one of the most captivating stories in worker power of the last year. And that's the viral success of Starbucks' workers in forming unions across the country.

I believe that the victories this week, or this past week, which included some unanimous ones, puts us somewhere around 30, if I'm correct.

MS. EISEN: As of an hour ago we are at 33.

MS. KINDER: Thirty-three, okay.

MS. EISEN: Yeah.

MS. KINDER: But when Michelle E. and Michelle H. started their work there were zero. So Michelle Eisen, in red, is a barista in my hometown of Buffalo, New York. Her store on Elmwood Avenue, which is like the hippest part of downtown Buffalo, was one of the first, there's three in Buffalo that has voted. She was there, they were the iconic image of Buffalo Starbucks' workers jumping in the air that we actually put in our report. That's Michelle E. Right after that, the next location in the country where Starbucks' workers voted successfully to unionize, was Michelle Hejduk's store in Mesa, Arizona.

Buffalo, New York and Mesa, Arizona are in totally different parts of the country, they have very different labor laws and characteristics, and I think it's their story, and the fact that the two Michelles have actually collaborated, cross pollinated, they've helped spark this trend across the country against a lot of obstacles.

So I am delighted to welcome them both to this conversation. And we're going to start with the personal. So I'm really curious to hear from both Michelles how did this start, what inspired you to get involved in a union effort when at the time there was not a single Starbucks location in the country that was a union. So we're going to go alphabetical, so start with Michelle E.

MS. EISEN: Thank you, Molly, I'm very happy to be here and going over your report and then listening to Bharat's comments. It's encouraging that that information is out there so hopefully that pushes things in the right direction.

But I'm going to try to make a very long story short because I started with Starbucks back in 2010, so it's been a very long road. I started with this company because it was a company that I believed was who they profess to be, it was a better company that took care of its workers and its communities. And I think it was. I think it was one of those companies when I started.

Fast forward to 2020 and we're in the thick of the pandemic. And I'm fully realizing that maybe this company has changed, maybe they're not who they used to be because we are being called essential workers and we are putting our health and safety at risk to work through this pandemic and we're hearing our CEO on CNN and other financial shows announce these record-breaking profits, billions upon billions of dollars that are coming in in this pandemic. And I know that this money is coming from my labor and my co-workers' labor and I've got co-workers who are, you know, crying in the back room because they don't know if they're going to be able to pay their rent and put groceries in their fridge that week. So that was unacceptable. And we were tired and we were scared and we were feeling incredibly undervalued and unappreciated.

And so I had made the decision back in late spring of 2021 after going through a year of this pandemic that I was probably going to leave the company. I'd come to the company from the arts world, which I'm still in, but I needed benefits, and that's what led me there. And so I was going to leave after a decade, not even knowing where I was going to get my benefits, but I knew there had to be, you know, something else.

And then a co-worker approached me that summer and said, hey, a bunch of us have been talking and we were wondering your thoughts on unionizing Starbucks. To which I replied I'd never thought of unionizing Starbucks, I didn't know baristas could unionize, I didn't even know enough about unionizing to have that enter my thought process.

But it was enough to get me hooked, and I wanted to know more. And it just seemed like the obvious solution to try and work from the inside out to make my work life better and this company better, to sort of have them put their money where their mouth is. They've got all these wonderful values that they profess to but it didn't feel like they were actually living these values.

And so that's what started this for us in Buffalo. We filed our petition at the very end of August. Very long road with a lot of delay tactics from the company and some very, very, very uncharacteristic behavior for a company like this, tried to stop our campaigns, and we managed to get our victory on December 9th.

Mixed in there is when I became acquainted with Michelle H. So I will let her take that from here.

MS. KINDER: Great. Well, Michelle H. welcome. I'd love to hear your story as well of how you got involved in Mesa.

MS. HEJDUK: So I had been with the company for five years. I actually previously had worked in two different jobs that were union, so I was familiar with that but I had no idea how to start a union or what that was even a thing. It was your job was either union or not was my mentality.

And then with social media and stuff, seeing Buffalo come about, it was kind of like, wait, wait a minute. This is a thing that we can do and Buffalo's coming out and they're saying, well these are the issues that we're having. And we're over here in Mesa and I'm like these are the same issues that we're having. Like what?

And so we kind of were watching them. We stayed quiet a little bit and were just kind of, our eyes were on them. And then our store actually, our manager came forward and became a whistleblower from, you know, the whole movement. And from that point she ended up getting fired and we all were in shock. And so her firing is what caused us to react so quickly and to file and jump on board.

And at that time Buffalo hadn't won, so we were kind of were just like closing our eyes and just leaping. And we didn't know where we were going to land but we knew that it's what we needed to do and so we did everything that we could to get there. And then Buffalo won and a few months later we won. So it was pretty fantastic.

MS. KINDER: Your reference of the fact that the heart of the spark was the firing of your colleague reminds me of what was happening in Statin Island with Chris Smalls and Amazon and his firing and that being the moment that workers were coalesced, so an interesting parallel there.

I'm curious, what did you expect or did you think you were going to succeed? Did you expect it to be a yes?

MS. EISEN: Are you talking to me or Michelle H.?

MS. KINDER: I'll start with Michelle H. Both of you, I'm curious what you thought the outcome would be.

MS. EISEN: I knew that the alternative, I couldn't imagine the alternative. Because if we didn't succeed, the issues that were already so awful, that was going to get that much worse, and it was certainly going to be worse for those of us who had come out and spoken in favor of the union.

So for me there was no alternative. So I threw everything I had into that. Once I realized the company was fighting as hard as they were to stop it, which still was an initial shock to me. I was still very idealistic as to the company I was working for. Once that became apparent, there was nothing that I didn't want to do to ensure that victory.

But there was a moment in that a vote count when we had gotten to what we thought was the number of no's that were coming in and then the no's kept coming, where I had an out of body experience that was just a living nightmare. But then we did win.

MS. KINDER: How about you, Michelle H.?

MS. HEJDUK: So with us, I mean realistically from the moment we kind of, the whole thing was so new to us. So we kind of didn't know where we were going to go. And then Buffalo won and from that moment I think our store was pretty confident because we were like okay, this is a possibility, right? Like we know that there is an end.

And again, with Starbucks' tactics, really union, must have been throwing, again, so much at us, I think that actually made us stronger. And made it so where everybody in the store felt like no, we're going to win. Like we're not going to let them win. So.

MS. KINDER: Well let's get into that. You both had just raised this point that the reaction when you started this effort, the reaction from Starbucks was intense. So I'd love to hear what happened, what was the reaction, what were the tactics that were deployed? I think this not something I think most viewers have any personal experience with and so I think just explaining from your position what happened and what was the company legally doing in order to dissuade you from forming this union. So Michelle E. I'd love to start with you and then bring in Michelle H.

MS. EISEN: So I think the first thing that I didn't know, when you file a union petition, during that campaign process and eventual voting process your store or unit, whatever the legal term is, is supposed to remain in what they call laboratory condition. So the company cannot come into that store or that factory and make any sort of changes, good or bad, in any way, to influence a vote.

So once I was told that I thought okay, well we filed a petition so in theory nothing should change until we have this vote. That is not what happened. Within a couple of days of the petition being filed all sorts of corporate, high-level corporates from the company flew into Buffalo, as far up the chain of command as Rossann Williams, who is the Vice President of Starbucks North America, I think she oversees something like 15,000 stores. She's now in Buffalo and she's now holding listening sessions with the partners at, we had 20 locations at the time in Buffalo. All sorts of meetings are happening.

They're then sending these corporate folks into our stores, on the floor with us, in very expensive suits, who are now taking out the trash, who are getting bins of ice, who are sweeping the lot, I mean it was just absolutely insane. And they're disrupting business and they're there to, in their eyes, what they told us, was they were there to help.

They were sent to Buffalo because they were under the understanding that things were so bad here in Buffalo but nowhere else in the country and they were going to come here and get us back on track.

Those are all things that should never have happened. When that didn't work they sent in support managers from all over the country. So they took managers from their stores in other parts of the country and they sent them to the stores in Buffalo and they essentially put them on the floor with us. We later found out that they were told that we were never to be left unattended. So at any part during the day there was supposed to be a manger on the floor to overhear conversations or break up union conversations, anything you could possibly think of.

That was the beginning of it. The listening sessions, is what the company called them. We know them as captive audience meetings. We were essentially brought into hotel conference rooms and sat in a circle where we were talked at for an hour where they explained the evils of the union and how we didn't want a third party to come between us and they were just giving us the facts and, isn't this company already so wonderful. The person making $4 million a year is sitting across the circle telling me that it's already so wonderful and we're all partners here, we're all at the same level, we're all partners. And so, you know, they just want to make sure that we're taken care of.

Those continued throughout our vote process because there's no laws saying that the NRB or the NRA should say, cut the law off at 24 hours before the voting period. So all the way up until through our hearing, through, you know, it was months of these captive audience meetings. It was intimidating and it was very scary for a lot of people.

And they tried really hard to make the union into a third party where they say well we're just giving you the facts, so if you want information about the union you should go find a union organizer. And then people like myself and Michelle would raise our hands and we'd say well, we're right here, it's not like this phantom in a black robe. You know, I'm the union organizer and I'm sitting here and I'd be happy to answer any questions that you have. And it was crazy. I mean it was absolutely crazy.

I'll let Michelle go into the aggressive over hiring that they did to try and dilute the vote because I think her store, it was hit so hard with that. And that's a great story so I think she should go into that one.

MS. HEJDUK: So we experienced a lot of the same things but the, you know, managers, support managers coming in. They assigned two store managers to our store with three ASMs. And were also told we weren't allowed to be left unattended, even going as far as like closing our store because one of them wasn't available to go in. So even though I was a shift supervisor and on the floor like normal, they chose to close the store for like six hours or whatever it was that day because they weren't there.

So then they also hired, I think it was like 15 people into our store. So when we initially filed we had 25 partners and when ballots were sent out we had 43 sent out. So they definitely did a mass hiring. And some of these people, I mean we never even met them and they had ballots. They were never in our store, they trained them in what they called the training facility, so it was a store up the street that had closed early. And they would train them all night and then they would come over to our store.

Now this store, they're training them in conditions right, so the store is closed so they have no customers, they have no idea what it's like to actually work in the location that they're going to. We are a drive-thru store at our location and so like they have no idea how to work a drive-thru location or how to use the headsets or anything like that. So they're coming in, they don't really know how to do their jobs, and they're set up, you know, really for failure, just being used ultimately so they would vote no.

And in the end I think they all voted yes, which was amazing. But that was because we sat there and we took the time to, you know, take care of them and guide them and show them, you know, treat them like humans and not just a vote. So it was pretty great. But, yeah, that was one of the main tactics that they did at our store was over hiring.

MS. KINDER: Wow. So it's very clear from these stories that a lot of these actions were legal. Not everything that Starbucks has gotten in trouble for. Some of the firing and there's been some specific actions that were not deemed legal, but a lot of this is perfectly legal, and consistent with our existing labor law reforms, labor laws.

And I'm struck that in part of Bharat's discussion of what the President's agenda is on worker power, he referenced things like the Pro Act, which is federal legislation that would change some of these laws and tip the balance so that employers don't have that much power to do some of these things, and give workers more ability to organize.

I'd love to just hear from you about what you think needs to change. So you've just gone through this, and I think a lot of the story about the Starbucks movement is a positive one because you're seeing success in other places. But I know your lived experience was full of challenges. And it's probably, you know, I'd love to hear from you, but it's some of these challenges like to dissuade others from being able to exercise that right.

So I'd just love to hear from you, you know, we've got an audience at Brookings that cares about public policy, they want to see big change. And so I'd love to hear your ideas in your own words about what you would like to see change. And that could be at the federal level, it could be at the state and local level, but let's start with you, Michelle E.

MS. EISEN: I mean, and I think Michelle and I are in the same boat, we had to get a crash course in U.S. labor law when we started this campaign because we were forced to. We had to understand what our rights were and what our protections were because it was very clear that the company was not handling this well. They were not going to acknowledge that this was even happening at first, and then when they finally did, they were not going to let it go easy.

I mean short of complete overhaul of labor law, I'm not sure, you know, there's very little that exists that I would say, yeah, we should keep that. I mean there's really, it's very, very skewed in favor of the corporations, which I just think is so shocking considering what these laws were put in place for, which was to protect the workers.

This is the hardest thing I've ever done in my life. And it shouldn't have been half as difficult. I mean the simple, it's our right to organize, that's it. It's a right to organize, and that should be all it takes. If a majority, a simple majority, and it shouldn't go to a hearing. I mean there are so many things that the company employed that they knew they were going to lose on because the precedent, the legal precedent had already existed for years, like saying that an individual store can't vote to unionize.

But they knew these things would delay the vote. They knew that it would give them more time to have these captive audience meetings, to infiltrate our store, to hire and try to, you know, dilute the vote. And they employed every single one of them.

So every single sort of shortcoming that exists within the current labor law, they know it and they used it. You know, it took 102 days from the time we filed our petition until our vote count. That's, you know, a third of the year. It took a third of the year essentially for us to get our vote count, something that's supposed to be a guaranteed right.

I just need to, I loved a lot of what Bharat said in terms of the President's support in terms of what, it's very aware that people know what needs to happen, it's just I'm at a loss for how to make it happen. You know, I'm at a loss for how we get from Point A to Point B.

MS. KINDER: Michelle, I'm curious. You're in Arizona, which is a right to work state, which makes some of this even harder. And we had a great question from someone in the audience who sent in advance about the reality that especially across the south you have a lot of states that have these right to work states, they've made it harder for workers to organize.

And, you know, when I hear that, you know, a lot of the solutions we put in our report could be enacted at a local level or a state level. Minimum wages are going up at the state and local level even as Congress has failed to do anything.

But labor law's a tough one because without really a federal response, you know, workers in a lot of these places are just at the mercy of these companies and states are in some ways making it worse. So I don't know if you have any reflections on anything you've seen that makes you think, that points you in a certain direction in terms of a solution, some kind of policy response.

MS. HEJDUK: Again, this is all such a crash course for me. My experience starts about two days before we filed. So I'm still learning every single day about this. And as of right now I agree with Michelle, like I don't really know where or how to get these things in place. But I think like federally is where it needs to be and that would help most of all.

MS. KINDER: Well and this is very much reflected in our report, we do call for labor law reforms. This Pro Act that Bharat referenced is a legislation that has not yet gained traction in the Senate. And so, Michelle, to your point that I think for those who feel strongly that we're never going to have an even playing field for workers, you know, our economy won't be balanced and equitable unless workers have a greater ability to organize. I think the lack of action on some of these labor law reforms is such a problem.

You know from my personal perspective it's having workers like you out there talking about your personal experience and helping educate the public and inspiring us, that I think really is making a difference. I know this not your full-time job, but Michelle, you have two jobs. I'm sure, Michelle H. you might more than one too, where you're working full time at Starbucks and you've taken this on in your spare time and you've had to sort of learn all this stuff. And your very example is showing what's wrong with our policies and what's wrong with our labor laws.

So I just wanted to thank you for sharing some of these experiences. In like the final sort of closing remarks, you know, this is a conversation about equitable capitalism, and we got some questions about what would a union do to allow for equitable capitalism. So just very succinctly, what's the most important thing being part of a union would give you that would help contribute to this more equitable capitalism?

MS. EISEN: I mean I've always said we need, you know, a voice within the business. And the voice would allow us to be a part of those decisions, which would decide wages, which would decide benefits, which would decide, you know, stock buybacks. And I mean there's just being able to have a conversation with someone who essentially makes those decisions and then be able to vote on those decisions for yourself and your location, that's what we need. I mean we need, there has to be a conversation.

You can't tell me that people at the highest level of corporate even have any idea of what's going on on the floor level, because they don't. And we've seen it. I've watched them now come into Buffalo and not know what they're doing. You know, so that needs to happen. There needs to be some level of communication that connects us down here with them up there and hopefully starts to close that gap just a little bit.

MS. KINDER: That's great. And Michelle H.

MS. HEJDUK: I don't think there's anything to add to that. That's absolutely perfect.

MS. KINDER: That's great. Well, congratulations on your successes, and thank you for sharing these views on the importance of workers having a voice in these important decisions that ultimately benefit the workers, that benefit society and the economy overall. So thank you both for joining us and for sparking this national movement that has captivated all of our attention. So thank you very much to the Michelles.

And with that I'm very excited to introduce the final segment of our discussion today. My colleague and my co-author, Katie Bach, will be in conversation now with Rick Wartzman. This is the perfect opportunity to hear from two people who have a front row seat and deeply understand the reasons why corporations don't change more from within.

Now Katie's going to give a bit of her background, but she's had a front row seat because she's been working at a high level at some of these very corporations that we just studied, and is currently an executive in the business world while she has been a nonresident Senior Fellow with us at Brookings. And I just have to say I've learned so much from Katie over the past year. She has taught me so much about the realities that companies are facing and the pressures that are placed on them that keep perpetuating the system.

And there's really no one better for her to be in conversation than with Rick Wartzman. Pulitzer Prize winning journalist, he's currently the head of the KH Moon Center for a Functioning Society. He has a book coming out that I have read that is excellent. It's called *Still Broke*, and it's a story of Walmart on these very issues.

So I'm delighted to welcome Katie and Rick in conversation about the corporate perspective.

MS. BACH: So far we've heard from Molly on the report's central findings, the White House on the policy and structural reforms needed, and just now the Starbucks' workers on the centrality of worker power.

Now I am delighted to sit with Rick Wartzman to delve into the corporate perspective. In particular, we're going to discuss whether corporations themselves, like those that signed the pledge, are ever likely to lead meaningful change.

As Molly mentioned, I am a private sector person. I'm currently the Chief Business Officer at &pizza, which is a fast-growing pizza chain with more than 1,000 employees. In addition to having great pizza, I will make a brief plug. We're also known for creating really good frontline jobs in an industry that has terrible ones.

I have an MBA from MIT and I previously spent time at McKenzie's. I was actually a Corporate Strategy Director at Starbucks, and I was the Managing Director of the Good Jobs Institute. And in that role I worked directly with a number of Fortune 100 Executive Teams on some of the very issues we talk about in the report.

Rick has also spent significant time with private sector leaders. In his work at the Drucker Institute he and his colleague consulted with C-Suite executives and some of the country's largest corporations. The Drucker Institute's annual best managed company rankings, which is published in the Wall Street Journal as the Management Top 250, gives him a really interesting window into corporate behavior.

And perhaps most notably he is an author who has spent considerable time looking at how the social contract between employer and employee in America has changed from the end of World War II until today.

So, Rick, absolutely thrilled to be able to sit down with you.

MR. WARTZMAN: Yeah, so excited to do this. So very cool.

MS. BACH: All right, let's dive into it. So as Molly mentioned, the bulk of our report describes the outcomes at these 22 companies, who gained, who lost, are we paying workers fairly, and the choices that led to that. And, you know, the bottom line, which is I think not a surprise to either of us, shareholders and executives did extraordinarily well, workers shared very minimally in the success, and they disproportionately bore losses that shareholders and CEOs were essentially insulated from.

And while company choices weren't 100 percent responsible for these outcomes, they contributed significantly. And we've talked about this, but the stat that I just can't get over is that companies spent five times more returning cash to shareholders through dividends and buyback, than they did on raising worker pay. And just by redirecting stock buybacks, only buybacks, not dividends, these companies could have raised median pay by 40 percent.

And you and I have both spent a lot of time with executives, including some of the executives from these very companies. And at least in my experience, they don't want to be bad employers. And in fact when I've shared worker take-home pay data with them, they're often pretty horrified, even I would say ashamed. And all of these companies, almost all of these companies had just committed to doing business differently.

So what's going on? Given all of that, why do they continuously reward shareholders and executives instead of investing in their workers?

MR. WARTZMAN: Yeah, it's a great question. It's kind of maybe the question, I would say along with, you know, climate change kind of, as an issue. You know, one of the existential questions of our day, right? And certainly in this country in terms of the health of not only the economy, but really our democracy and, you know, we see all the ill effects from, you know, disproportionate share of wealth and corporate wealth going to a very small number of people in the scheme of things.

One thing I just want to say, I really want to commend you and Molly and Laura on the report. And I think it really fills in many ways, and the work that, you know, Molly and Laura and you have been doing at Brookings. Really fills a gap which is, you know, we talk about this stuff at a very aggregate level often, right, labor share and capital share. And it gets kind of hard for people to follow.

And I think it takes a lot of courage to do the math and name names. And it really makes it plain for people to understand what's going on. And I think there's tremendous value in that. I know it takes a lot of courage actually to do that. And so I commend you and I think it fills a really important gap in the scholarship.

You know, what's going on, I mean it's complicated, we'd need hours or weeks or months to try and even begin to sort it out, not a few minutes. But I think you're on to something really important, right, which is, you know, and Paul Polman, you know, as former CEO, Unilever, still consults with, you know, executives and trying to, you know, have them take more responsibility for their externalities, right, to use that term. And he says what you say. They don't get up and say, you know, how can I make, right, the planet dirtier or they don't get up and say how can I screw my workers. But there are all kinds of wrong incentives in place, wrong structures in place. But these aren't, you know, forces of nature. These in turn are human made incentives. They're human made structures, they're human made policies at both the national level, which we've heard some about, and at the corporate level.

And I think a lot of it comes down to really changes in culture, changes in our norms as a society. I wrote a lot about this in my last book, *The End of Loyalty*. And, you know, I think there's just been profound changes, you know. I often sum it up and say we went from kind of a "we" culture after World War II to an "I" culture. And I think a lot of the numbers reflect that, I think that we have left so many people behind, you know, reflects that.

That's a way oversimplification, there are all kinds of nuances to it. The "we" before didn't include people of color, it still doesn't by and large. Didn't include women in the workplace. I mean it's an overly simple explanation but there's also a lot to it.

MS. BACH: You know it's something you and I have talked about before, and I think it is, you articulated it perfectly. It's a challenging thing to put one's finger on.

So in the report when we start delving into why do executives made the choices we do, we present some of the more objective pieces of it, right? So on average something like 65 percent of executive compensation across these 22 companies is directly linked to short-term financial performance.

MR. WARTZMAN: Yeah.

MS. BACH: As you and I both know, the best way to very, very quickly drop profitability is to raise wages.

MR. WARTZMAN: Yes.

MS. BACH: You can make it back in the long run with productivity, but in the short run it's a financial hit. We talk about the fact that, you know, boards of directors are unbelievably interlinked. It was something like we found that two-thirds of the companies, of these 22 companies, had a director who was a current or former executive or board member of at least one of the other companies.

MR. WARTZMAN: Yeah.

MS. BACH: I mean it's, you know, you're the governors of corporate behavior are themselves corporate executives. And so you've got, you know, you've got the incentives, but what is harder, and what you're raising is more the beliefs around what does a corporation owe to society. And what is a worker worth.

And I know that's something that you've had the chance to have a number of conversations with executives about.

MR. WARTZMAN: Yeah. Yeah, I think that, again, I think the incentives, I mean really important, the CEO pay that you point to, right? We, you know back in the post-war era, you know, it was still capitalism but we compensated top executives differently, right? They tended to get a very small amount of their pay that was equity based. And that has just ballooned, and your number is not surprising, you know, depending on which sort of, you know, study you look at it's, you know, 50 to 80 percent of CEO compensation is now, you know, directly tied, you know, to share price.

And so there are all kinds of incentives. I mean you wouldn't be human if you didn't feel the tug of trying to make the share price go up. Not only for your shareholders, who you're under pressure from if you want to keep your job if you're a publicly traded company but, you know, beyond that, you know, maybe it's your spouse or your own lifestyle or, you know, whatever.

It's just it's really an insidious system that we have created, that corporate America has created, and again, been enabled by regulation and, you know, the laws that we put in place, that have only reinforced, right, these models, right? Including, you know, all the laws have changed in the early 80s around share buybacks, for example.

So I think the incentives are wildly in the wrong place. And meanwhile any kind of counterbalance, and again, you know, this goes back to the public policy piece but, you know, a lot of those incentives and structures have been weakened over the last 40 or 50 years.

And I think that's really, you know, what your report has hit on is, you know, this is not just a story that (audio skip), you're telling the story of what's happened to America, the American economy and corporate America over the last 50 years. This is not the last, you know, (audio skip) and so, you know, you cast it in bold relief, it's framed around the pandemic. But this is the story of America over the last 50 years.

One other link that's really important to make. So I think, you know, as CEO pay has grown, and you mentioned this, right, that executives are often shocked. They look at, when you actually say hey, look at what you're paying your frontline folks. And correct me if I'm wrong, they'll say we're paying fine. And often the answer is well we pay what the market pays, or we, you know, we're not below market, or maybe we're even, you know, a little bit above market. And you say yes, but that's not even close to a living wage for the majority of your workers. And they are struggling to make ends meet, right?

And we've seen this when companies, you know, really delve into this, you know. Aetna did it a while back, like PayPal has done this. When they actually get up close and look at what they think is good, decent pay, maybe decent pay, turns out not to be decent for their frontline workers. Those folks are really, really struggling in ways that you again document in the report.

And I think there's a piece where executives, honestly, as their wealth has grown, as society has become kind of more separated between those that, you know, make a lot of money and everybody else, and particularly those on the front lines. They're out of touch. I don't think they're necessarily, you know, cruel, I think they just, they really kind of don't know.

So structures are in the wrong place, there's a bit of self-delusion, hey, we're doing great, you know, we pay what the market pays, right, it should be good. You know, we treat our people well, we give them, you know, free access to Spotify or, you know, whatever the benefit is, right, that Starbucks' workers got, you know.

Or, you know, and then again I just don't think they appreciate what the lives of tens of millions of Americans and often thousands if not tens of thousands or hundreds of thousands, you know, in the case of a Walmart or Amazon are, you know, by scale, are really like. And these are folks who get up, work really hard every day, and at the end of the month when the bills come due, face painful choices about whether they, right, pay their heating bill or whether they can really have a, you know, full meals for their family or, you know, be able to buy medicine.

And this happens every day. And so this combination of structure and incentives, self-delusion, and being out of touch is a really bad diagram of things.

MS. BACH: I think it's also, I mean to your point about, you know, with your compensation structure like this you wouldn't be human if it didn't occur to you to behave in this way. You know, I think it's sometimes hard to remember what the day to day of an executive is like.

And so a couple years ago Dana Hwu from MIT Sloan, and I, wrote this HBR piece *Why CEO's Don't Know They Have a Bad Job*s *Problem*. And it was everything you're saying, right? And the point we made is that they're looking at the wrong data. They often look at hourly wage data. They don't look at annual take-home pay, they don't look at distribution of annual take-home pay. And even when they do, to your point, they don't really know what it means. Because they make so much, like 30,000, 50,000, like it doesn't totally register.

MR. WARTZMAN: Yep.

MS. BACH: But I think what's interesting is ask the question, why aren't they looking at those numbers? You know, I've worked with senior executives at a number of these companies and let me tell you, we look at numbers. In my job today I look at every number of the business all the time. And so I think it's interesting that executives are not looking at one of their largest line items --

MR. WARTZMAN: Yeah.

MS. BACH: -- which is labor, from the perspective of the workers. They're looking at it from the perspective of the company, right, which is total spent on labor.

MR. WARTZMAN: Yep.

MS. BACH: But never what a worker's taking home.

MR. WARTZMAN: Yeah.

MS. BACH: And for that I think going back to your point about culture, when you think about what an executive faces pressure to do, and you think about who is putting that pressure on them, it is their boards of directors, it is their investors, and to some extent it's consumers.

And you know one of the things we did for this report is we went through dozens of earnings columns.

MR. WARTZMAN: Uh-huh.

MS. BACH: And it was so striking, right? Like this is the middle of the pandemic, frontline workers are dying keeping companies running. And investors were like, okay, but what do you think the hottest new trend in denim is going to be? They didn't know or ask anything about workers.

And so to your point about the cultural shift, we live in this world in which executives aren't expected to care about the well-being of workers.

MR. WARTZMAN: Right. Right. Well look, you've got an MBA and, you know, maybe your experience was different, but, right, the Aspen Institute's done a lot of research around this. I mean where MBA students typically go through their programs and they don't have any class that mentions the word "labor" often, except maybe as a cost. That's it, in finance. But that's kind of the end of it. And so there's not a whole lot of teaching around these issues, around how to think of people as actual human beings and not as human capital. And, you know, I think that has a lot to do with it.

I also think that as a society, right, and this is where I can see, you know, companies now that say, look, you know, we pay $15 an hour. As a society now, the bar, we have set the bar so low collectively. We're fighting for 15. But the fight for 15 began a decade ago.

MS. BACH: Uh-huh.

MR. WARTZMAN: The cost of living is way up, right? We should be, you know, right, strive for 25 is, you know, what some now say. And rightfully so. Fifteen's an old number and so companies, I mean forget the federal government, which is still at seven and a quarter, I mean companies are, you know, trying to catch up to 15. We've set the bar so, so low as a society that that also I think just a real problem and a real issue.

We're not even giving companies the right benchmarks to be, much less mandating that they do, which in the end is where I come down. I don't think we'll ever get there without mandating, you know, that people get paid a living wage. It's not going to happen.

MS. BACH: And I'm going to come back to that point in discussion. But --

MR. WARTZMAN: Katie, can I give you actually one number because this piece --

MS. BACH: Yeah, please.

MR. WARTZMAN: -- just ran that I did. So I was actually super curious about this. So, you know, leading at the, you know, bottom end of the, you know, of the labor terms A, that, you know, those folks, actually over the last couple of years because of the tightness of the pandemic labor market in real terms, right, in real terms. Even as fast as inflation has started to move, that those folks did make up some real ground over the last couple of years.

MS. BACH: Uh-huh.

MR. WARTZMAN: And I was curious about that and sort of, and I was curious how long, like how fast has it actually gone up and then how long would it have to go for, you know, those folks to get to a living wage, what I would consider a living wage. Which is $20 an hour, and I use that standard for a family living wage. Living Wage for U.S. is an organization that is Michelle Murray's organization. It's done some fabulous work around this and, you know, they find that 80 percent of the population lives in a county where the family living wage is $20 an hour or higher.

And I think that has a lot of face validity, right? You make, you know, if you were a full-time worker getting full time hours, which is incredibly rare for many hourly people, you know, what does that pencil to, 40, you know, less than $42,000 a year. It has a lot of face validity to me. Like that feels like, okay, you know, in most of the country that's not a lavish lifestyle.

So to get to $20 an hour I asked Larry Mishel from the Economic Policy Institute to actually do the math, you don't want me adding and subtracting. So I asked Larry to run some numbers for me. And here's what he found. So the 20th percentile wage earner, right, hourly wage earner, went from 13.04 to 14.09 over the last two years, so during 2020 and 2021. From 13.04 to 14.09 an hour. That's an 8.1 percent was what the rate of pay. So a little over 8 percent over that two-year span. That's horrid. And by the way, real terms, those are inflation adjusted numbers.

So they were, in inflation adjusted terms, they made 8 percent pay raise over the last two years. You know, I think it's less than 15 percent from 1979 to 2019 in real terms. So this was like a huge, huge gain. To get to $20 an hour, that would have to keep up for a full decade. To get to $20 an hour for those folks.

My point is that we have dug, the hole is so deep, we have 50 years of wage stagnation across the economy. It messes up everything. I often liken it to climate change. Like the problem is so big now, we've made such a big problem, incrementalism to recover won't get us where as a society I think we need to go out of fairness, out of making sure hardworking people aren't struggling. Like, you know, we have set the bar so low as a society. And in turn that effects, I think, the way executives think about this.

And so they think they're making real progress when in fact it's really incremental progress.

MS. BACH: And I would add to that I think there is this sort of vicious feedback loop that comes from our understanding of what a meritocracy is in America.

MR. WARTZMAN: Yep.

MS. BACH: I think there is this bizarre sense of well if I'm making $20 million a year, that must be my value. And if this person is making 14.07 an hour, I mean that must be their value. And we've talked about this before, but one thing that has consistently struck me in conversations, not with all executives, but with some executives, is their absolute unwillingness to believe that their frontline workers are productive assets, that investing in them can pay off for the business.

And to your point, this is a mindset that has grown over the last 40 or 50 years.

MR. WARTZMAN: Right. Right.

MS. BACH: So let me ask you kind of I guess the hardest question then. I mean we've sort of, everything we've said lends itself to the conclusion that change will not come from companies. They're not incentivized to, they're not pressured to, and the mindsets and beliefs of most executives just don't lend themselves to really radical change. You have some exceptions, you know, you have companies like Costco that just do business differently, but they're the minority.

MR. WARTZMAN: Correct.

MS. BACH: I think, you know, we've heard a little bit about what kind of big picture solutions we need in terms of policy and structural reform. The question that I find hardest is, are the incremental improvements that some of these companies are making, you know, as we said in the report, some of these companies did raise wages in substantial ways, albeit from a very low base, improvement is a good thing. Because they're paying off for workers, or is this actually bad because it's letting companies say, no, no, no, don't worry, we'll handle this ourselves.

MR. WARTZMAN: You know, I've always thought that we need to try and change corporate norms and behavior, and it's a lot of my work at the Drucker Institute. And I've also always thought government has a real role in, you know, setting the rules of the road.

I've actually based on this new book that I have coming out in November about Walmart, you know, which has made a lot of change over the last six, seven years. And under Doug McMillion, their CEO, they have invested, in the scheme of being Walmart and compared to their history and compared to many other retailers, they have now invested, you know, quite a lot, 5, $6 billion in, you know, pay raises and training programs and so on, right? And so they've done a lot. Their, you know, their average, you know, pay is still under, you know, $27,000 a year, you know, for their workers. And so we need to encourage more of that because it is good for workers. We should be encouraging more of that.

And so I'm still a both end person, but I was always leaning on the change corporate behavior side. I've now, because of this book and my research, leaning on the only way to really fix this is to really get government to mandate much bigger, bolder solutions.

MS. BACH: Fantastic. Rick, thank you so much for your time. This conversation could go on forever but it's been really a pleasure.

MR. WARTZMAN: Yeah. Likewise. Thanks so much.

MS. BACH: And with that I will (audio skip)

MS. KINDER: Great. Thank you so much, Katie and Rick, that was a really rich discussion.

This is the end of our program. I want to thank all of our speakers today, Bharat, both Michelles, Katie, and Rick, really grateful, especially to my two co-authors, Katie Bach and Laura Statler. To the amazing Karen Slachetka (phonetic) for making this event work like magic, as she always does, and to everyone who tuned in to today's event. We had a great turnout and a really rich discussion on Twitter.

You can find out more about the findings of this report at Brookings.edu. Our report is called *Profits and the Pandemic: A Shareholder Wealth Sword Workers were Left Behind*.

We'd love to hear from you, you can find us on Twitter, and let us know your reflections on the report.

Thanks again to everybody and have a great rest of your day.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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