The Jus Semper Global Alliance

Living Wages North and South

Corporate Social Responsibility

July 2007 A TLWNSI ISSUE BRIEF

Business Practices of Southern California Grocers are Still Unsustainable for Most Workers

A second strike in four years against three major grocers was averted with the recovery of some ground previously lost. Yet the grocers have a long way to go before they can boast to be responsible and sustainable businesses.

By Álvaro de Regil [a]

Periodically, TJSGA publishes Briefs of relevance for The Living Wages North and South Initiative (TLWNSI). This Brief makes an assessment of the new contract between unionised workers and three major grocers in Southern California. Albeit the grocers gave back much of what they took away in the strike of 2003–2004, grocery workers cannot yet aspire to enjoy a dignified and sustainable livelihood, and they will remain like that for as long as the market continues to take precedence over people.

On 22 July, after seven months of negotiations, the United Fruit and Commercial Workers (UFCW), representing 65.000 Southern California grocery workers, and three of the largest grocery store chains in the U.S. finally agreed to a new four-year contract that eliminates some of the most unsustainable and discriminatory compensation policies in the sector, which were imposed in 2004 after a four and a half-month strike. The supermarket chains involved, with nearly 800 stores in the region, are: Vons and Pavillion's Stores, owned by Safeway; Ralph's, owned by Kroger; and Albertson's owned by Supervalue.

The Darwinian Deal

After the strike of 2003-2004, the grocers significantly undermined the labour endowments of their workers. In a three-year contract, the UFCW was able to protect the wages of their then current workers. However, despite the heavy losses generated by the strike and by consumer alienation, th1,25e grocers imposed a two-tier system, which ensured that all future workers would be destined to earn substantially less than California's $13 an hour average wage as well as the $17.90 an hour that senior workers earned, and receive substantially less benefits than workers hired before the strike. Additionally, the contract imposed no wage increases, whatsoever, for all current and future workers throughout the three-year term.

Relative to the workers' health benefits, the other major dispute in the strike, the grocers contribution to the health plan of the then current workers, was capped at $4.60/hour, regardless of how much health insurance providers would manage to raise fees in the third year of the contract. Furthermore, with the 2004 contract, veterans, who previously did not have to contribute to their health plan, began contributing 20 percent.[1] As for the new hires, the health plan imposed was so predatory that it made it practically impossible for new workers to enjoy a health insurance benefit. Among the new hires, the waiting period was in-creased from four months to 12 to 18 months for employees, depending on their classification, and 30 months for their families. In this way, of the 44.000 second-tier workers, less than 3.800 have health-care coverage today, and of that 3.800, less than 80 have benefits for their children.[2] Thus, it is of no surprise that, according to a study from the UC Berkeley Centre for Labour Research and Education, whilst 94 percent of all grocery workers in 2003 had health care coverage, today only 57 percent have it. This is a clearly discriminatory and unsustainable business practice.

By the same token, the 2004 contract immediately opened the window for discrimination against current workers as well. In a business ethos obsessed with a culture of using labour endowments as the first recourse to boost shareholder value, store managers have bonus plans tied to saving money. Thus, under this scheme, they naturally chose new workers for overtime work because that was clearly the cheaper way to go.

As could be expected, the two-tier scheme put new workers against veterans and triggered a huge increase in turnovers. This is clearly observed in the Centre's finding that, before the 2004 contract, the annual turnover rate for grocery workers in Los Angeles was 19 percent, and, afterwards, the turnover rose to 32 percent. Moreover, the turnover of grocery workers in their first year of employment rose from 30 percent to 52 percent. [3]

The strike generated heavy losses for the grocers, estimated by financial analysts to be of $1,5 billion in income and $350 million in profits. A few months after the strike, financial analysts estimated that Safeway had suffered a permanent loss of 10 to 15 percent of its customer base whilst Albertson's market share loss was estimated at about 10 percent; a projection reinforced in a survey that found out that 14 percent of consumers who had been regular shoppers of the three supermarket companies indicated that they would no longer continue shopping with them, switching their buying habits for the long haul.[4] Now, more than three years later, according to market research from Shelby Publishing, the market share of the three grocers has dropped from 57 to 49 percent;[5] an indication that the greedy strategy of the grocers has clearly backfired. In this way, the new four-year contract signed this month, in which the grocers give back much of what they took away is, to be sure, a clear improvement vis-à-vis the 2004 contract, and confirms that the attempted savings and boost to shareholder value, through the grocers' Darwinian business practices, did not work at all.

The New Deal

In 2007, with far more competition from many medium-size grocers, and with the imminent entrance in the Southern California market of British chain Tesco, which plans to open about fifty Fresh and Easy grocery stores in Southern California, these grocers were in no mood to go through another strike that would surely hurt them far more financially and in their public image than in the preceding years. Thus they backtracked and agreed to give back to workers a good portion of the endowments lost. Indeed, the new deal, as summarised by the UFCW, contains the following provisions:[6]

- ❖Eliminates the two-tier wage structure and upholds the wage structure applicable to workers hired before the 2003-04 strike,
- ❖Provides wage increases retroactive to the end of the previous contract (March 2007).
- ❖Wage increases annually over the 4-year term of the contract. Wage increases will range between $1.65 and $6, depending on job classifications, over the life of the contract,
- ❖Shortens waiting period for health care eligibility from 12 or 18 months to six months for new hires and dependent children. Shortens waiting period for spouses from 30 to 24 months,
- ❖Provides adequate funding to pay for health coverage for the term of the contract. Union agrees to supplement employers' contributions with 48% of the fund. A six-month reserve from the health care trust fund will be preserved at the end of the term of the contract,
- ❖Preventative health care included for all employees: routine physical exams, well baby care and childhood immunisations,
- ❖Provides graduation to Plan A Health Care Coverage for employees hired after March 2004,
- ❖Pension contributions stabilised. Provides funding that allows current retirement levels to continue and preserves Golden Rule of 85.

What is starkly lacking

The conditions of the new contract are certainly a significant recovery of the labour endowments in place before the 2003-2004 strike. Yet, from the perspective of what is necessary to provide a sustainable dignified quality of life to workers in this economy, they clearly leave a lot to be desired. In a nutshell, the wages paid to most grocery workers before the strike and, evidently, under the new contract, cannot be regarded as living wages.

After no wage increases since 2002, the wage increases scheduled in the new contract, after adjusting for inflation, should be enough to sustain real wages. If we look at the $1,65 wage increase over four years, for the lowest salary tier of $7,55/hour, we need to take into account the accumulated inflation rate since 2002, which amounts to 12,3%, at an average annual increase of 2,35%. Thus, just to sustain the same real wage, nominal wages would have to increase immediately to $8,48. Instead, they will increase only $0,41 annually, or to $7,96 immediately; but wages should be able to catch up with the average annual inflation by March 2010, when the fourth wage increase will take place. If the average inflation rate holds, sustaining real wages would require a nominal wage of $9,09 in 2010. By that time the new nominal wage, after the $1,65 increase over four years, will be of $9,20. Thus wage increases will maintain real wages if we assume that inflation will remain at the same rate. That is fine as far as sustaining real wages, given that the system allows workers to increase their wages based on merit.

Nonetheless, the fundamental problem is that a wage of $9,20 today does not make a living wage in California or in the U.S., whatsoever. The problem is a structural problem in the economy. Labour endowments in the U.S. are increasingly not providing a dignified income to millions of workers because employers are keeping more and more of what fairly belongs to workers. In the case of the workers involved in this contract, the starting hourly salary is now 46 cents above the California legal minimum wage of $7,50 ($7,96). Everyone knows that a minimum wage does not make a living wage, even in the most advanced economies, and it certainly does not in a country where, until this month, there had not been a minimum wage increase in nearly a decade. In the case of Southern California, according to the Economic Policy Institute, the required annual income for a family of four, to meet a basic gross family budget (including taxes) in the Los Angeles-Long Beach area, in 2004, was of $48.252.[7] An hourly wage of $7,96 amounts to an annual gross income of $16.560, assuming that the worker is working forty hours a week full-time shifts. This amounts to little more than a third of what is required to meet a typical size family basic budget. Yet the majority of workers in the supermarket sector do not even work forty-hour weeks. According to the UC Berkeley study, in September 2003, the average Southern California grocery worker worked 36 hours a week, and three years later that number had fallen to 29 hours a week. In the case of the workers hired under the new contract, they averaged 25 hours a week. Thus it is not surprising that, according to the same study, in Los Angeles, the teenage share of grocery workers with less than one year on the job rose from 46 to 53 percent. This is clearly indicative of the increasing precariousness and the systematic pauperisation of the work force.

In this way, it is not surprising as well that before the strike, workers did not have to contribute to their health plan, and now they do; and that the waiting period is six months instead of four months for employees and their children, and a ridiculous 24-month wait for their spouses. Additionally, despite of what has been said, there is still a second-tier system for insurance. According to press reports, former second-tier workers and all new employees will pay weekly health insurance premiums of $7 to $15, based on their dependants, even when they graduate after 5 1/2 years of service to the top health-insurance program. In this way, if a worker earning $7,96/hour pays $7 a week for insurance, he or she will have to contribute about $30 a month, whilst the monthly increase this year amounts to about $53 for a 30-hour/week shift. As for the workers who have large families, they will have to pay $15 dollars a week or $65 per month, which is more than the wage increase of $53 a month. So, in most cases, the wage hike will go mostly to cover for insurance, and they may have to put even more to cover their entire contribution. In this way, in the best-case scenario, this year's wage hike washes itself out with the insurance premium. In the worst case, the net disposable income, after taxes and insurance fees, will be less than before.

Outlook

What we are witnessing, despite the efforts of the UFCW, is the clear pauperisation of workers on behalf of the defence of the shareholder value of the institutional investors of the grocery chains. Not only are the majority of grocery workers receiving hunger wages, but they are increasingly being used as commodities, as part time workers. This pauperisation makes their livelihood completely unsustainable, and deprives them from enjoying a dignified standard of living. Hence the huge increase in turnover and in the use of teenagers.

This is a structural problem that negatively affects everyone but the upper echelons of society. It is this Darwinian logic that, by placing the market over the welfare of people, it is destroying the welfare of communities across the country and across the world. This means that there is no reason to feel good about the outcome of the negotiations. To be sure, the results obtained by the UFCW are both commendable and far better than in the previous situation. Yet they only mitigate the suffering and do not address the real issue: despite the fact that corporations directly derive their wealth from the members of society as consumers, they are imposing their interest over people at the expense of the long-term sustainability of society. This ethos, to be sure, is completely unsustainable, for by decreasing the labour endowments of workers to boost their profitability they are decreasing the capacity of the economy to grow. By keeping the part that should have gone to labour in the first place, they are depressing wealth redistribution. This business model denies sustainability to many of its participants. This decreases aggregate demand, which in turn makes the grocers' own long-term sustainability impossible. As more and more workers are excluded from fully participating in the market because they do not earn a living wage, the system falls into a perverse cycle that blocks the multiplying effects of a market economy.

I am not discovering anything new. Evidently, the current Darwinian ethos that engulfs the world is completely unsustainable. Yet as long as the trend continues, it is necessary to denounce it, time and time again, to increase awareness and action until we change the purpose of societies and, thus, of business, to make it the welfare of people and planet in a sustainable manner and nothing else.

Indeed, to change this, reinvigorate the economy and build a truly sustainable paradigm, the welfare of people has to be put above the welfare of the owners of the market. It should be clear that in real democracy the first responsibility of governments is to procure the welfare of all and every rank of society, especially of the dispossessed. This is why a living wage is regarded as a basic human right in Article 23 of the Universal Declaration of Human Rights, which clearly states the right of all to enjoy a quality of life worthy of human dignity. Unfortunately, with the halls of government controlled by global capital worldwide, currently there is no way to change the current ethos unless we, as consumers, use the same logic of the market used by business to reward responsible companies and punish those that impose their Darwinian ethos, by leveraging our consumer power.

In this way, in regards to the three grocery chains, it should be clear that they are far from practising a sustainable business model. It is only due to the resolve of unionised workers and the self-inflicted wounds caused by the alienation of thousands of consumers that the grocers have given up on their previous stance. Thus, as conscientious and responsible consumers we should have no reason to support these grocers with our consumer power. Although currently there are no ideal alternatives in the sector that provide their workers a sustainable livelihood, we should support, in our role as conscientious and responsible consumers, those grocers that practice the least unsustainable business model. That is, we should look for those who treat their workers best and try to provide jobs that are dignified and can be sustained. We should do it not just because it is a good deed, but especially because of self-interest; for the more that we support sustainable business models, the greater the odds that we can sustain our own livelihoods in the long-term.

Lastly, it is important to be aware about our power as consumers. The loss of almost 10 percent of the grocers' market share due to their practices played a key role in making the grocers give up on their previous stance. Therefore, we should never underestimate the power that consumers have in making corporations incorporate sustainable business practices into their business culture. If we made them change their way once, we can certainly make them change time and time again in the direction of socially-sustainable practices that will benefit all market participants and not just the companies and their institutional investors.

Footnotes:

[1] Ken Jacobs, Arindrajit Dube, Felix Su. Declining Health Coverage in the Southern California Grocery Industry. Summary Findings. UC Berkeley Centre for Labour Research and Education. January 2007
[2] Brave New Foundation: Supermarket Swindle, The Facts: http://supermarketswindle.com/facts.php
[3] Ken Jacobs, Arindrajit Dube, Felix Su. Declining Health Coverage in the Southern California Grocery Industry. Summary Findings. UC Berkeley Centre for Labour Research and Education. January 2007
[4] Álvaro de Regil. Consumer Power in the Logic of the Market. Real and Direct Democracy in Pursuit of CSR. TLWNSI Issue Essay. The Jus Semper Global Alliance., December 2004.
[5] Jerry Hirsch, Southern California grocery conflict rooted in previous strike. Los Angeles Times, 23 July 2007.
[6] UFCW. United Food and Commercial Workers Union. Highlights of Contract Agreement with Ralphs, Vons and Albertsons. www.ufcw770.org, 24 July 2007.
[7] Economic Policy Institute. Basic Family Budget Calculator. Los Angeles-Long Beach. Revised data posted September 2005. See also: Sylvia Allegretto. Basic family budgets. Working families' incomes often fail to meet living expenses around the U.S. Economic Policy Institute. Briefing Paper #165. September 2005

For further reference about the 2003-2004 Southern California Supermarket strike see:

- Álvaro J. de Regil. California's Supermarket Strike: Corporate Social Responsibility nowhere to be found. ©TLWNSI Issue Commentary. The Jus Semper Global Alliance., January 2004. Available at: CalStrikeComment.pdf
- Álvaro J. de Regil. California's Supermarket Strike: National Grocers Trash any Trace of Corporate Social Responsibility. ©TLWNSI Issue Commentary. The Jus Semper Global Alliance., March 2004. Available at: CalStrikeComm2.pdf

[a] Álvaro de Regil Castilla is Executive Director of "The Jus Semper Global Alliance"; developer and promoter of TLWNSI (The Living Wages North and South Initiative).

Useful links:

www.jussemper.org