The hypocrisy of big tech claims about affordability in SF Bay Area.

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Big tech that has billions in profits is working hard to shame counties like Marin to give up their desire for small town character and do their fair share to make the Bay Area more affordable for tech employees. But the dark side of their hypocrisy is the "un-livable" wages they outsource to the poor in our communities. … more »

To understand rising inequality, consider the janitors at Kodak and Apple, then and now

Neil Irwin, The New York Times

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Photo: Jason Henry/The New York Times
Image 1 of 5

Marta Ramos arrives at the Apple building for janitorial work in San Jose, Calif., Aug. 22, 2017. Focusing on core competence and outsourcing the rest has made U.S. companies lean, nimble and productive, but

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ROCHESTER, N.Y. — Gail Evans and Marta Ramos have one thing in common: They have each cleaned offices for one of the most innovative, profitable and all-around successful companies in the United States.

For Evans, that meant being a janitor in Building 326 at Eastman Kodak's campus in Rochester, New York, in the 1980s. For Ramos, that means cleaning at Apple's headquarters in Cupertino, California, in the present day.

In the 35 years between their jobs as janitors, corporations across America have flocked to a new management theory: Focus on core competence and outsource the rest. The approach has made companies more nimble and more productive, and delivered huge profits for shareholders. It has also fueled inequality and helps explain why many working-class Americans are struggling even in an ostensibly healthy economy.

The $16.60 per hour Ramos earns as a janitor at Apple works out to about the same in inflation-adjusted terms as what Evans earned 35 years ago. But that's where the similarities end.

Evans was a full-time employee of Kodak. She received more than four weeks of paid vacation per year, reimbursement of some tuition costs to go to college part time, and a bonus payment every March. When the facility she cleaned was shut down, the company found another job for her: cutting film.

Ramos is an employee of a contractor that Apple uses to keep its facilities clean. She hasn't taken a vacation in years, because she can't afford the lost wages. Going back to school is similarly out of reach. There are certainly no bonuses, nor even a remote possibility of being transferred to some other role at Apple.

Yet the biggest difference between their two experiences is in the opportunities they created. A manager learned that Evans was taking computer classes while she was working as a janitor and asked her to teach some other employees how to use spreadsheet software to track inventory. When she eventually finished her college degree in 1987, she was promoted to a professional-track job in information technology.

Less than a decade later, Evans was chief technology officer of the whole company, and she has had a long career since as a senior executive at other top companies. Ramos sees the only advancement possibility as becoming a team leader keeping tabs on a few other janitors, which pays an extra 50 cents an hour.

They both spent a lot of time cleaning floors. The difference is, for Ramos, that work is also a ceiling.

Kodak 1987 vs. Apple 2017

Eastman Kodak was one of the technological giants of the 20th century, a dominant seller of film, cameras and other products. It made its founders unfathomably wealthy and created thousands of high-income jobs for executives, engineers and other white-collar professionals. The same is true of Apple today.

But unlike Apple, Kodak also created tens of thousands of working-class jobs, which contributed to two generations of middle-class wealth in Rochester. Harvard economist Larry Summers has often pointed at this difference, arguing that it helps explain rising inequality and declining social mobility.

"Think about the contrast between George Eastman, who pioneered fundamental innovations in photography, and Steve Jobs," Summers wrote in 2014. "While Eastman's innovations and their dissemination through the Eastman Kodak Co. provided a foundation for a prosperous middle class in Rochester for generations, no comparable impact has been created by Jobs' innovations" at Apple.

Apple’s new spaceship campus won't fully open until the end of the year but already Apple Park is giving residents living in one neighborhood along the Cupertino-Sunnyvale city line problems.

Media: JW Player

Evans' pathway was unusual: Few low-level workers, even in the heyday of postwar U.S. industry, ever made it to the executive ranks of big companies. But when Kodak and similar companies were in their prime, tens of thousands of machine operators and the like could count on steady work and good benefits that are much rarer today.

When Apple was seeking permission to build its new headquarters, its consultants projected the company would have 23,400 employees, with an average salary comfortably in the six figures. Thirty years ago, Kodak employed about 60,000 people in Rochester, with average pay and benefits companywide worth $79,000 in today's dollars.

Part of the wild success of the Silicon Valley giants of today — and what makes their stocks so appealing to investors — has come from their ability to attain huge revenue and profits with relatively few workers.

Apple, Alphabet (parent of Google) and Facebook generated $333 billion of revenue combined last year with 205,000 employees worldwide. In 1993, three of the most successful, technologically oriented companies based in the Northeast — Kodak, IBM and AT&T — needed more than three times as many employees, 675,000, to generate 27 percent less in inflation-adjusted revenue.

The 10 most valuable tech companies have 1.5 million employees, according to calculations by Michael Mandel of the Progressive Policy Institute, compared with 2.2 million employed by the 10 biggest industrial companies in 1979. Mandel, however, notes that today's tech industry is adding jobs much faster than the industrial companies, which took many decades to reach that scale.

Many of the professional jobs from those companies in the 1980s and '90s have close parallels today. The high-paying positions setting corporate strategy, developing experimental technologies and shaping marketing campaigns would look similar in either era.

But a generation ago, big companies also more often directly employed people who installed products or performed many of the other jobs needed to get products to consumers.

In part, fewer of these kinds of workers are needed in an era when software plays such a big role. The lines of code that make an iPhone's camera work can be created once, then instantly transmitted across the globe, whereas each roll of film had to be manufactured and physically shipped. And companies face brutal global competition; if they don't keep their workforce lean, they risk losing to a competitor that does.

But major companies have also chosen to bifurcate their workforce, contracting out much of the labor that goes into their products to other companies, which compete by lowering costs. It's not just janitors. In Silicon Valley, the people who test operating systems for bugs and screen thousands of job applications are unlikely to receive a paycheck directly from the company they are ultimately working for.

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Perhaps the biggest indictment of the more paternalistic approach taken by an earlier generation of corporate behemoths is that Kodak is a shell of its former self. After a bankruptcy and many years of layoffs, the company has only 2,700 employees in the United States and 6,100 worldwide.

But it is also clear that, across a range of job functions, industries and countries, the shift to a contracting economy has put downward pressure on compensation. Pay for janitors fell by 4 to 7 percent, and for security guards by 8 to 24 percent, in U.S. companies that outsourced, Arindrajit Dube of the University of Massachusetts-Amherst and Ethan Kaplan of Stockholm University found in a 2010 paper.

These pay cuts appear to be fueling overall inequality. J. Adam Cobb of the Wharton School at the University of Pennsylvania and Ken-Hou Lin at the University of Texas found that the drop in big companies' practice of paying relatively high wages to their low- and midlevel workers could have accounted for 20 percent of the wage inequality increase from 1989 to 2014.

The same forces that explain the difference between 1980s Kodak and today's Apple have big implications not just for every blue-collar employee who punches a timecard but also for white-collar professionals who swipe a badge.

Forklifts vs. Software

Phil Harnden was coming out of the Navy in 1970 when he applied for a job at Kodak and soon was operating a forklift in a warehouse. He made $3 an hour, equivalent to $20 an hour today adjusted for inflation. That is roughly what an entry-level contracting job testing software pays.

The difference between the two gigs, aside from the absence of heavy machinery in Apple's sleek offices, is the sense of permanence. Harnden put in 16 years operating forklifts before he left in 1986 to move to Florida. When he returned 10 years later, he was quickly rehired and even kept his seniority benefits.

In interviews, tech industry contractors in Silicon Valley describe a culture of transience. They can end up commuting to a different office park that houses a new company every few months.

"I would rather have stability," said Christopher Kohl, 29, who has worked as a contractor at several Silicon Valley companies. "It's stressful to find a new job every 12 to 18 months."

For Silicon Valley's contracting class, there are reminders large and small of their second-class status. Contractors generally do not receive the stock options that have made some midlevel Silicon Valley workers wealthy over the years, nor the generous paid time off for vacation, illness or the birth of a child. The health insurance plans tend to be stingier than those that the tech giants they serve provide for their direct employees.

"It's not evil," said Pradeep Chauhan, managing partner of OnContracting, a site to help people find tech contracting positions. "They have a job and they're getting paid. But it's not ideal. The problem with contracting is, you could walk in one day and they could say, 'You don't need to come in tomorrow.'"

And that is the ultimate contrast with the middle-skill, middle-wage jobs of earlier generations of titans — a sense of permanence, of sharing in the long-term success of the company.

"There were times I wasn't happy with the place," Harnden said of his Kodak years. "But it was a great company to work for and gave me a good living for a long time."

Transmissions vs. Staplers

When an automaker needs a supplier of transmissions for its cars, it doesn't just hold an auction and buy from the lowest bidder. It enters a long-term relationship with the supplier it believes will provide the best quality and price over time. The company's very future is at stake — nobody wants to buy a car that can't reliably shift into first gear.

But when that same automaker needs some staplers for the office supply cabinet, it is more likely to seek out the lowest price it can get, pretty much indifferent to the identity of the seller.

Labor exists on a similar continuum.

The right product engineer or marketing executive can mean the difference between success or failure, and companies tend to hire such people as full-time employees and as part of a long-term relationship — something like the transmission supplier. What has changed in the past generation is that companies today view more of the labor it takes to produce their goods and services as akin to staplers: something to be procured at the time needed for the lowest price possible.

There is plenty of logic behind the idea that companies should focus on their core competence and outsource the rest. By this logic, Apple executives should focus on building great phones and computers, not hiring and overseeing janitors. And companies should outsource work when the need for staff is lumpy, such as for software companies that may need dozens of quality-assurance testers ahead of a major release but not once the product is out.

There's no inherent reason that work done through a contractor should involve lower compensation than the same work done under direct employment. Sometimes it goes in the other direction; when a company hires a law firm, it is basically contracting out legal work, yet lawyers at a firm tend to be paid better than in-house counsel.

But a strong body of evidence is emerging that as more companies outsource more functions over more time, it's not just about efficiency. It seems to be a way for big companies to reduce compensation costs.

Linda DiStefano applied for a secretarial job at Kodak during Easter week of her senior year in high school in 1968 and was hired to start immediately after her graduation for $87.50 a week, today's equivalent of $32,000 a year. She put in four decades at the company, first as a secretary, then as someone who helped administer corporate travel and other projects.

"I helped put on the dinners for the board of directors, which in retrospect someone of my grade shouldn't have been doing," she said. "But I had a series of managers who trusted me."

It bought her a house off Lake Avenue, a new car every few years and occasional long-distance trips to Motown reunion concerts. When her department was abolished in 2008, the travel bookings contracted out, she was making $20 an hour. The best job she could find was as a pharmacy technician at a grocery store for $8.50 an hour.

Rochester vs. Cupertino

As you drive around Rochester, the role of Eastman Kodak in the city is evident everywhere, in the Kodak Tower that looms over the center of town, in the Eastman Theater on Main Street, and in the hulking buildings and empty parking lots of the manufacturing center known as Kodak Park.

In reading the company's old annual reports, you get a sense that its executives thought of the jobs created and the wages paid as a source of pride and achievement. On the first page of most years' annual reports was an accounting of how many employees the company had in the United States and worldwide, and the total pay and benefits they received.

Apple, with a spaceshiplike campus about to open, looms large over Cupertino in its own way, accounting for something like 40 percent of the jobs in the city and investing $70 million in local environmental and infrastructure upgrades. It is no middle-class enclave; the median home price is $1.9 million.

"We definitely feel a sense of pride to be the home of Apple," said Savita Vaidhyanathan, the mayor of Cupertino. "But they consider themselves a global company, not necessarily a Cupertino company." She said she has never met Tim Cook, Apple's chief executive. "We would have a hard time getting an audience with anybody beyond upper-middle management," she said.

Ramos, the Apple janitor, lives down the road in San Jose. She pays $2,300 monthly for a two-bedroom apartment where she and her four children live. Before overtime and taxes, her $16.60 an hour works out to $34,520 a year. Her rent alone is $27,600 a year, leaving less than $600 a month once the rent is paid. Overtime, in addition to the wages from one of her teenage children who works part time at a grocery store, help make the math work, although always tenuously.

There is little chance for building connections at Apple. "Everyone is doing their own thing and has their own assignment, and we don't see each other outside of work," said Ramos in Spanish.

Evans, who was a Kodak janitor in the early 1980s before her rise to executive there and at other leading firms like Microsoft and Hewlett-Packard, recalls a different experience.

"One thing about Eastman Kodak is they believed in their people," said Evans, now chief information officer at Mercer, the human resources consulting giant. "It was like a family. You always had someone willing to help open a door if you demonstrated that you were willing to commit to growing your skills and become an asset that was valuable for the company."

The shift is profound. "I look at the big tech companies, and they practice a 21st-century form of welfare capitalism, with foosball tables and free sushi and all that," Rick Wartzman, senior adviser at the Drucker Institute and author of "The End of Loyalty," said. "But it's for a relatively few folks. It's great if you're a software engineer. If you're educated, you're in command."

But in the 21st-century economy, many millions of workers find themselves excluded from that select group. Rather than being treated as assets that companies seek to invest in, they have become costs to be minimized.