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Bargaining for Stability: Wage Policies under Full Employment

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About the Author

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Achieving wage and price stability at full employment has long been recognized as a central paradox of business-cycle and growth policies. Historically, the starting point for any successful wage policy has been the early inclusion of organized labor. As we consider managing and sustaining a tight labor market for the first time in decades, it's important to understand both the challenge of creating successful wage policies without an existing strong labor movement, as well as the conditions necessary for successful wage stabilization beyond the labor market: stability of profits and prices at high employment.

The thrust of inflation control policies across the North Atlantic has long rested on national attempts to stabilize wages. Because labor is more ubiquitous as a cost in the economy—labor costs comprise some 62 percent of net output of nonfinancial corporate business in the United States—it has become the cornerstone of any macroeconomic stabilization policy, despite the fact that prices may rise for a variety of reasons.[1] This is evident in the inflation control policy the United States is operating today, the primary element of which is central bank discretion in open market operations to reduce real investment and labor demand. Federal Reserve Chairman Jerome Powell has made this strategy of targeting wages explicit. In March, he said that wage increases "are running at levels that are well above what would be consistent with 2 percent inflation, our goal, over time." In July, Powell explained that "We actually think we need a period of growth below potential in order to create some slack." In December, he clarified that the growth in service prices is "very fundamentally about the labor market and wages" and that the Federal Open Market Committee (FOMC) was concerned that "you don't really see much progress in terms of average hourly earnings coming down." Mark Zandi, chief economist for the credit rating and research firm Moody's, which is widely quoted by American national media, exemplifies this apparent consensus: "We need the slowdown in job growth and job creation pretty quickly to take the steam out of wage growth and quell inflationary pressure." The Federal Reserve's quarterly forecasts show the Fed board

[1] The average share of compensation of employees out of price per unit of gross real value added of nonfinancial corporate business for the 1947-2022 period is 62.34 percent. Of *net* value added of nonfinancial corporate business, the share of employee compensation in the 1970-2021 period is 72.06 percent. US Bureau of Economic Analysis, "Table 1.15. Price, Costs, and Profit Per Unit of Real Gross Value Added of Nonfinancial Domestic Corporate Business" (accessed Wednesday, January 18, 2023). OECD (2023), Value-added in non-financial corporations (indicator). doi: 10.1787/731f0874-en (Accessed on 18 January 2023). Because labor is a primary cost of production for wide swaths of the economy, the advance of a given firm's wages rates in excess of that firm's sales at a given level of employment will raise labor's share of the sales dollar. To maintain profits in the face of rising wages, firms that are able must either increase productivity or raise prices. From the perspective of the national income accounts and macroeconomic theory, this relationship is well established. Estimates of output-per-hour worked (productivity) are regularly invoked in forecasting future inflation.

members progressively raising their median unemployment rate assumptions for 2023—from 3.5 percent and 3.9 percent in March and June to 4.4 percent and 4.6. percent in September and December, with some members aiming as high as 5.3 percent.[2]

But engineered unemployment was not always accepted as a device for wage policy. Indeed, in the years after World War II, resorting to a deliberate recession in employment through raised interest rates was considered a socially inequitable and economically wasteful technique for economic stabilization.[3] Because such a policy entailed a violation of congressional mandates "to promote maximum employment" and "to promote full employment and production," policymakers confronting inflation and bounded by minimum employment

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[2] Board of Governors of the Federal Reserve System, *Transcript of Chair Powell's Press Conference March 16, 2022*, p. 24, https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220316.pdf. Board of Governors of the Federal Reserve System, *Transcript of Chair Powell's Press Conference July 27, 2022*, p. 10, https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220727.pdf. Board of Governors of the Federal Reserve System, *Transcript of Chair Powell's Press Conference December 14, 2022*, p. 16, https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20221214.pdf. ; Zandi quoted in "Fed Chair Jerome Powell says 'some pain' is on the horizon. Here's what that means," *CNN*, August 30, 2022, https://www.cnn.com/2022/08/30/economy/fed-jerome-powell-pain-economy/index.html. Board of Governors of the Federal Reserve System, *Summary of Economic Projections*, March 16, 2022, https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20220316.pdf. Board of Governors of the Federal Reserve System, *Summary of Economic Projections*, June 15, 2022, https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20220615.pdf. Board of Governors of the Federal Reserve System, *Summary of Economic Projections*, September 21, 2022, https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20220921.pdf. Board of Governors of the Federal Reserve System, *Summary of Economic Projections*, December 14, 2022, https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20221214.pdf.

[3] In *American Capitalism: The Theory of Countervailing Power* (1952), pp. 198-99, John Kenneth Galbraith makes a representative and influential statement: "With countervailing power, demand may decrease but, if there is still pressure on capacity, prices will continue to rise. Prices will not be certain to fall until a reduction in demand is sufficient to cause production to be less—perhaps rather substantially less—than current capacity." In the absence of countervailing power, original power may be sufficient to push up prices, as the 2021 to 2022 experience shows. See also statements by Arthur Burns to the annual meeting of the Business Council in May 1970, quoted in Wyatt C. Wells, *Economist in an Uncertain World: Arthur F. Burns and the Federal Reserve, 1970-1978* (Columbia: 1994), p. 57 and Alan Matusow, *Nixon's Economy: Booms, Busts, Dollars, an Votes* (University of Kansas: 1998), p. 70, as well as Burns's noted address at Pepperdine University in December 1970, "Burns Suggests Pay-Price Board to Cut Inflation" and "Text of Burns Speech on Steps to Fight Inflation and to Extend U.S. Prosperity," *New York Times*, December 8, 1970, pp. 1 and 34; Gardner Ackley, "An Incomes Policy for the 1970's," in *Review of Economics and Statistics*, August 1972; James Tobin, "Stabilization Policy Ten Years After" and George L. Perry, "Inflation in Theory and Practice," both in *Brookings Papers on Economic Activity* (1:1980), pp. 64-5 and 232. Joe Pechman, "Fiscal Policies in a Troubled Economy," *Eastern Economic Journal*, August-October 1980, especially p. 176; J. Bradford DeLong, "America's Peacetime Inflation: 1970s" in *Reducing Inflation: Motivation and Strategy*, eds. Cristina D. Romer and David D. Romer (Chicago: 1997), pp. 264-5 and 274.

targets learned to channel business-cycle policy during the so-called "Golden Age of Capitalism" into politically sophisticated "national wage policies" and eventually "incomes policies" that would shape the growth of labor and nonlabor incomes equitably within the bounds of real national product.[4]

This brief considers the example of historical United States wage policies as the basis for considering alternatives to reducing the growth of employment and output in the pursuit of economic stabilization. If the US is to sustain tight employment for the prolonged periods necessary to accomplish national goals—including a conversion of our energy infrastructure, the expansion of affordable housing, the provision of affordable health care and expanded public education facilities, and the reduction of inequality in incomes and wealth—then a policy for stabilizing and guiding the growth of incomes in the course of an economic expansion will be an indispensable element of any national program.

This brief compares two periods of public spending-led growth during the 20th century when labor markets tightened and inflation threatened the public: World War II and the Vietnam War. The economic mobilizations of both periods raised production and employment to the available limits of capacity in critical sectors of the economy, creating an impetus for expanding capacity accompanied by situations in which the maintenance of stability required the active participation of both labor and management. Because the mobilizations differed markedly in the nature and timing of their public-private coordination, a comparison of the two periods offers an illustrative lesson on possible strategies for managing wages and prices during a period of full employment.

Both economic historians and historical actors have devoted considerable attention to the possibilities collective bargaining opened to pushing up costs in particular industries above various productivity measures. This focus, however, has diverted attention from the stability provided by union-organized labor markets; collective bargaining has been the only

[4] Quotations of statutory language are, respectively, from the Employment Act of 1946 (Public Law 79-304, 79th Congress) and the Full Employment and Balanced Growth Act of 1978 (Public Law 95-523, 95th Congress). For the idea of a "Golden Age of Capitalism," see *The Golden Age of Capitalism: Reinterpreting the Postwar Experience*, eds. Stephen A. Marglin and Juliet B. Schor (Clarendon: 1992). For the evolution of incomes policies, compare William Fellner, Milton Gilbert, Bert Hansen, Richard Kahn, Friedrich Lutz, and Pieter de Wolff, *The Problem of Rising Prices* (OECD: 1961) and the two reports by the Organization's Working Party on Costs of Production and Prices *Policies for Price Stability* (OECD: 1962) and *Policies for Prices, Profits and Other Non-Wage Incomes* (OECD: 1964). See also International Monetary Fund, *Annual Report 1964*, pp. 117-122.

successful institutional device for wage policies that did not rely on unemployment. While real wage protection in the face of rising prices has been ubiquitously misunderstood as a contributor to inflation, in actual fact, every inflationary spiral but one in the US since World War II has seen labor's share of national income fall in spite of rising wage rates. During the 20th century, rising wages only sustained prolonged wage-price spirals defensively. This is evident in the current inflation, which with rising wages saw an explosion in profits and a shift in the share of national income accruing to property during 2022.[5]

This persistent defensive behavior shows that one key historical condition for success of any policy for wages intended to stabilize labor costs without sacrificing tight labor markets has been stability in the cost of living. Wages cannot be kept stable when the cost of living is rising. In the history of inflation-control policies, this has required skillful management of supply, targeted intervention into the price-making decisions of concentrated industries with market power, statutory controls over prices, materials allocations, tax increases on individuals and corporations, and excess-profits taxes to prevent the accumulation of opportunistic fortunes in times of emergency. Successfully deploying these tools has required the creation of institutions that allow labor, management, and the government to work and plan together to adjust wage structures, both to elicit greater labor supply and to limit the effects of those adjustments on prices. If high employment is to be reconciled with stability, those interested in managing and sustaining a tight labor market need to prioritize strengthening the labor movement in order to build institutions that foster tripartite policy setting—for example, by empowering sectoral wage boards and liberalizing labor organizing rights to grow unions' power in sectoral bargaining. As the history of wage policies shows, the condition for their success has been the active participation and collaboration of those whose incomes the public is seeking to control.

[5] The share of gross domestic income accruing to after tax corporate profits (with inventory valuation and capital consumption adjustments) rose from 7.3 percent in Q4 2019 to 8.6 percent in Q2 2021. It was 8 percent in Q2 2022. Profit per unit of real gross value added of nonfinancial corporate businesses rose from 14.5 percent in Q4 2019 to 19.6 percent in Q2 2022. The share of profits after tax (without inventory valuation and capital consumption adjustments) in gross value added of nonfinancial corporate business rose from 9.5 percent in Q4 2019 to 15.4 percent in Q2 2022. Over the course of the inflation from Q2 2021 to Q2 2022, the labor share of national income fell 0.3 percent. The notion of a labor cost push gained credence after the 1955-57 and 1958-60 cycles, when organized labor succeeded in pushing up wages and prices despite high unemployment. Nevertheless, the fall in labor income in these years attributable to high unemployment resulted from contractionary fiscal-monetary policies, which prefigured the stagflation of the 1970s.

THE WORLD WAR II PRODUCTION PROGRAM: CONSTRUCTION AND SHIPBUILDING

A historic expansion of federal expenditures drove the unprecedented performance of the US economy during World War II. Government share of GNP rose from 6 to 40 percent; real personal consumption expenditures rose by nearly 50 percent; and unemployment fell from 8 million to less than 1 million, or from 17 percent to around 1.5 percent. To stabilize this rapid employment of people and resources, the Franklin D. Roosevelt administration accompanied this expenditure program with a tax policy intended to prevent the accumulation of wartime fortunes as well as new coordinating institutions to supplement the role of the price system in allocating resources and labor in a period when production and employment was testing the physical limits of capacity and the geographic distribution of the population. The size of the labor force grew by 18 percent, while the federal government financed the construction of factories which were, by the end of the war, equal to 14 percent of national capacity in iron and steel, a quarter of national capacity in motor vehicles and machine tools, and over half of national capacity in nonferrous metals and synthetic rubber.

This mobilization program placed enormous demands on the US economy. In two industries in particular—shipbuilding and construction—these demands required new coordinating institutions to guide the inflow of materials and labor. The total value of construction put in place (historical prices) nearly doubled from an annual $7 billion in 1940 (of which $2.6 was public contracts) to $13.4 billion in 1942 (of which $10.4 billion was public contracts). In the same period, annual employment in contract construction grew from 1.3 million workers to 2.2 million workers.[6] From a handful of naval vessels and a schedule of 50 maritime vessels per year in 1939, government ship orders grew to 1,445 new vessels under contract in 1940. The person-power requirements for this program were enormous. Whereas the US shipbuilding industry employed 79,400 workers in January 1940, by the peak employment month of November 1943 there were 1,397,700 workers employed in the nation's shipyards.[7]

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[6] Employment figures from *Employment Outlook in the Building Trades*, Bureau of Labor Statistics Bulletin No. 967, p. 14. Construction by type of project is from *The Construction Industry in the United States*, Bureau of Labor Statistics Bulletin No. 786, p. 7; cf. *Economic Report of the President*, January 1950, p. 164.

[7] Civilian Production Administration, Bureau of Demobilization, *Shipbuilding Activities of the National Defense Advisory Commission and Office of Production Management*, Charles H. Coleman. Historical Reports on War Administration, Special Study No. 18, Washington, DC: 1945, pp. 5-8, 21-24, and Appendix B. 1,445 vessels in 1941

The defense program could not transfer this amount of labor under the competitive decision-making of individual and decentralized collective bargaining—the dozens of shipyards bargaining with tens of thousands of workers could not set wage differentials through their own competition sufficient to attract and hold onto labor without an ever upward spiraling of rates. During late 1939 and 1940, employers across the manufacturing, shipbuilding, and building construction industries reported widespread "labor pirating" or "scamping," in which one firm's recruiters would poach skilled labor from the workplaces of competitors and from other industries.[8] Skilled and semiskilled labor in particular was in short supply, as employers in the machine-tool, aircraft, and construction industries also competed for these workers.[9]

In October 1940, anticipating the necessary expansion of production and employment, the Roosevelt administration dispatched Sidney Hillman, the labor representative of the National Defense Advisory Commission (reorganized that January as the Office of Production Management [OPM]) to secure voluntary agreements from workers and firms in these two sectors key to the national program. The OPM carried no statutory powers beyond the assignment of priorities for contracts[10] placed by the Army and Navy and for the subcontracts placed by their vendors—Hillman's labor stabilization experiment predated both the creation of the National War Labor Board and the passage of the Emergency Price Control Act by a year.[11]

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represents 1,309 new naval vessels and 136 new freight vessels. Employment figures from *Termination Report of the National War Labor Board: Industrial Disputes and Wage Stabilization in Wartime*, Vol 1. Historical Reports on War Administration, National War Labor Board, Washington, DC: 1949, p. 834; cf. BLS Series CEU3133660001.

[8] See the 10 hearings on "interstate migration" held between July and November 1940, US Congress, House, Select Committee to Investigate the Interstate Migration of Destitute Citizens, *Interstate Migration*, 76th Cong, 3rd Sess, 1940, and the 34 hearings on "national defense migration" held between March 1941 and September 1942, US Congress, House, Select Committee to Investigate National Defense Migration, *National Defense Migration*, 77th Cong., 1st and 2nd Sess, 1941-1942. As the numbering of these hearings shows, the problem of "destitute citizens" seamlessly became the problem of "national defense migration."

[9] *Shipbuilding Activities of the National Defense Advisory Commission and Office of Production Management*, pp. 124-125.

[10] Todd N. Tucker, "Priorities and Allocations: How the Defense Production Act Allows Government to Mobilize Industry to Ensure Popular Well-Being," Roosevelt Institute, January 2022, https://rooseveltinstitute.org/publications/priorities-and-allocations-how-the-defense-production-act-allows-government-to-mobilize-industry-to-ensure-popular-well-being/.

[11] Franklin D. Roosevelt, Executive Order 8629 on the Office of Production Management and the Office for Emergency Management. Online by Gerhard Peters and John T. Woolley, The American Presidency Project https://www.presidency.ucsb.edu/node/209567. *Testimony of Morris L. Cooke, Chairman, Shipbuilding Stabilization*

Stabilization in the Shipyards

At Hillman's invitation, representatives of the owners of the Pacific, Atlantic, and Gulf Coast shipyards met with leaders of the nation's two national labor federations, the American Federation of Labor (AFL) and the Congress of Industrial Organizations (CIO), along with representatives of the contracting agencies and the National Council of American Shipbuilders, an industry association. In November 1940, they formed the Shipbuilding Stabilization Committee "to undertake a detailed investigation of wage rates and working conditions with particular emphasis upon the migration of workers from yard to yard and its effect upon production . . . [to] form a basis for recommendations . . . as to the labor program that can best assure the most efficient construction of ships."[12]

The Shipbuilding Stabilization Committee agreed to divide the nation's shipyards into four geographic zones of investigation. In January 1941, Hillman convened the Pacific Coast Zone Conference in San Francisco, with invitations extended to every major employer and labor organization with membership in the Pacific coast shipyards. The Pacific coast was selected first because so few shipyard owners engaged in collective bargaining already; fewer existing collective contracts would therefore have to be taken into consideration in making recommendations.[13]

At each Zone Conference, representatives of the owners, labor, and the government studied regional wage patterns and came to an agreement on "Zone Standards." These were not contracts, but rather suggested language under general headings for the parties to future collective bargaining to consider in striking private agreements. They provided a single hourly wage for "skilled mechanics" or "first-class skilled mechanics," which referred to workers who had completed an apprenticeship program and studied a craft to become journeymen. The Zone Standards also provided shift premiums and overtime rates, future

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Committee, Office of Production Management, US Congress, Senate, Special Committee Investigating the National Defense Program, *Hearings*, 77th Cong, 1st Sess, Washington: DC, 1941, pp. 1131-1139. Alan Brinkley, *The End of Reform* (Knopf: 1995). Eliot Janeway, *The Struggle for Survival* (Oxford University Press: 1951), pp. 201-9.

[12] *Termination Report of the National War Labor Board*, Vol. 1, pp. 840-41. Steven Fraser, *Labor Will Rule: Sidney Hillman and the Rise of American Labor* (Free Press: 1991), pp. 368-370.

[13] *Termination Report of the National War Labor Board*, Vol. 1, pp. 841-842. *Testimony of Morris L. Cooke*, pp. 1132-1133. *Shipbuilding Activities of the National Defense Advisory Commission*, pp. 124-137.

adjustment of the wage scales,[14] an apprenticeship training program, and grievance machinery for workers. Most importantly for the owners, each Zone Standard provided a guarantee against strikes and limitations of production.

In parallel to the development of Zone Standards, the parties to private collective bargaining developed "Master Agreements," which were the actual contracts that provided the framework for local collective bargaining. Each Master Agreement incorporated the provisions of the Zone Standards, while also providing a wage structure for other employees, dependent on the central operative of the "skilled mechanic," and, critically, any "union security" provisions acceptable to the parties.[15] By the end of 1941, the conferences had agreed to Zone Standards in all four zones. The actual Master Agreements that followed differed in their "union security" clauses. For example, CIO agreements sought the automatic dues checkoff, while AFL agreements did not.[16]

With a framework for collective bargaining agreed to by the contractors and the labor organizations, actual agreements were all that remained to rationalize the wage structure and remove wages from the unregulated employer competition disorganizing production in the industry. While the Zone Standards provided uniform rates for skilled mechanics, no agreement that incorporated them was required to adjust existing wages downward if they were above the standard level.[17] Organized labor was thus alleviated of a major obstacle to becoming a signatory to the agreements, as some unions had already secured high wage rates in particular shipyards, such as in Northern California. Employer participation in some instances required guarantees from the contracting agencies that any agreements which incorporated the Zone Standards would be imposed on their competitors in the region. The Atlantic Zone Conference, for example, did not achieve agreement until after the Navy and the Maritime Commission issued statements that each contracting agency would pursue adherence to the Zone Standards "with respect to all national defense construction and upon contracts in shipyards in the zone."[18]

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[14] "On the demand of labor at the end of the first year from the effective date of Zone standards, and on the demand of either party, every six months thereafter" and a base level to be correspondingly adjusted upon each 5 percent increase in a regional cost-of-living index of the BLS.

[15] Copies of the standards for each Zone are in *Termination Report of the National War Labor Board*, Vol. 1, pp. 842–851. *Testimony of Morris L. Cooke*, pp. 1133-1134.

[16] *Termination Report of the National War Labor Board*, Vol 1., pp. 836-838.

[17] Testimony of Morris L. Cooke, p. 1137.

[18] *Termination Report of the National War Labor Board*, Vol. 1, pp. 843-844.

While employer opposition and aggressive collective bargaining did produce a few work stoppages in the shipbuilding industry, on the whole the Zone Standards provided a sound basis for the explosive growth of the industry. Naval construction exploded in 1940: Military ships under contract grew from 900,000 displacement tons (a standard unit of naval construction) on July 1, 1940 to 2,172,000 displacement tons on October 1, 1940, while Maritime Commission (commercial) ship orders grew from 31 in the year ending October 1940 to 177 in October 1940 and 312 in April 1941.[19]

Stabilization in Building Construction

In May 1940, Chairman of the Shipbuilding Stabilization Committee Morris Cooke told Congress: "We feel that the technique that has been adopted with the collaboration of Government, labor, and the private shipbuilding industry may lead to something very important" and that "Mr. Hillman expressed the hope that other industries might follow the model."[20]

The prospect of national standards for collective bargaining in construction predated the World War II mobilization. Since 1931, the Department of Labor (DOL) had fixed minimum wages on public contracts under the Davis-Bacon Act, which mandated contractors and subcontractors on government construction pay wage rates not below those found to be "prevailing" for similar jobs in the same area. Legislated during a period of severe deflation and price competition in the construction industry, the law was intended to prevent construction firms bringing in out-of-state labor to underbid local working people. Given the wide price swings in the building industry, and the jurisdictional disputes among the 20-plus crafts in the industry, a few leaders of organized labor in the building trades had long sought to bring national order to decentralized local bargaining. Such centralized bargaining standards, it was hoped, could prevent any local wage rates from being bid up in a boom to a level that left construction unions without a market during a downswing in prices and investment. With a pulse of new construction demand stimulated by the armament program, both construction union leaders and the contracting agencies of the government now

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[19] *Shipbuilding Activities of the National Defense Advisory Commission and Office of Production Management*, pp. 6, 9-10, 30, 37 (Table 8), 38, and 82. The 312 ships ordered by the Maritime Commission were the famous "Liberty Ships."
[20] *Testimony of Morris L. Cooke*, 1132 and 1136. The aircraft industry was a third industry sought, where employer opposition led to failure of sectoral regulation.

attempted to place a ceiling on construction wages by removing various inducements from employer competition.

To attempt to transfer to the building industry a version of a framework for stability in the shipyards, in June 1941 Hillman called a meeting of the construction unions and the contracting agencies of the government. The result of Hillman's stabilization conference was an agreement between OPM and the Building and Construction Trades Department (BCTD, today North America's Building Trades Unions [NABTU]) of the AFL signed July 22, 1941. Employers were not party to the agreement.[21] Under its terms, the parties agreed to uniform overtime rates, uniform shifts of the eight-hour day and five-day week, time-and-a-half for extra shifts, and protected jurisdiction for specialty trades. Where remote or nonunion areas required construction, the July 22 agreement provided that the Department of Labor "predetermine" wages according to "bona fide collective bargaining practices which will take effect at a future date," with labor agreeing to work under such predetermined wages "until the completion of the project, or not more than one year."

In exchange for these terms, the unions agreed to surrender the right to strike. Conciliation and arbitration would govern all disputes, including over union jurisdiction. A three-person Board of Review would hear all appeals. Undoubtedly critical to securing this agreement was the stipulation by both parties that the Board of Review would only accept appeals submitted by their constituent organizations—either the BCTD and its international union affiliates, or the contracting agencies of the government.[22] After repeated refusals to do so during the Vietnam War, the Nixon administration would attempt to revive this machinery nearly three decades later.

Runaway wages in 1941 and early 1942 were also a result of disorganization among the contracting agencies, particularly the practices of the Defense Plant Corporation, which often began projects without Davis-Bacon predeterminations by paying whatever rates it thought

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[21] Contracting agencies were the Army, Navy, Defense Plant Corporation, Maritime Commission, Defense Homes Corporation, and the Federal Works Administration. Assistant Secretary of Labor Daniel W. Tracy had served as President of the International Brotherhood of Electrical Workers, which had operated a national agreement with the employers' association since 1920.

[22] The CIO's Construction Worker Organizing Committee would be excluded from accessing the Board. John T. Dunlop and Arthur D. Hill, *The Wage Adjustment Board*, pp. 18-29. A copy of the agreement of July 22, 1941 is published as Appendix 2 to this volume.

necessary to attract labor from larger pools. (In this, it should be noted, Reconstruction Finance Corporation chairman Jesse Jones was violating the OPM agreement of July 22, 1941.) "When another contracting agency would later apply for a wage determination in the area," John T. Dunlop and Arthur D. Hill later wrote, "the prevailing wage structure would be found to have been upset by the first project."[23]

Unable to centralize the use of wages as a device to allocate labor across regions, the government's contracting agencies were competitively bidding up wage rates and undermining their own stabilization program. To apprehend this problem, Secretary of Labor Frances Perkins convened a series of conferences between the BCTD and the contracting agencies in the fall of 1941 and winter of 1942 to lay the groundwork for strengthening the agreement on wage stabilization. The agreement initially failed on the issue of the relevant base period for stabilization: Those unions whose contracts were soon to expire refused to be locked into rates negotiated before inflation had accelerated during the spring and summer of 1941. During the week of May 10, President Roosevelt invited the Executive Council of the BCTD to the White House to discuss the situation in construction labor and reach an agreement over construction wages. The president suggested wage rates be frozen at their level of May 1, 1942; the BCTD leaders preferred July 1, 1942. Labor Secretary Perkins then called a conference between the contracting agencies and the unions for May 15 to discuss the possibility of a wage-stabilization agreement, and on May 14, the president instructed Secretary Perkins to establish a Wage Adjustment Board (WAB) in anticipation of an agreement between the contracting agencies and the unions. On May 19, 1942, the 19 presidents of the BCTD unions and the six contracting agencies ratified an agreement, which was formally approved by President Roosevelt on May 22, 1942.[24]

The second stabilization agreement of May 1942 froze wages at their existing level and ended the process of Davis-Bacon predeterminations on public projects. Instead, the parties agreed that "on all war construction work done for or financed by the United States . . . the wage rates paid under collective bargaining agreements as of July 1, 1942 shall remain in full force and effect for a period of at least one year after that date and subject to annual renewal of this agreement for the duration of the war." Under three conditions, the WAB could revise wage rates on public projects: In cases where the July 1 rates were fixed "at a time so long before . . .

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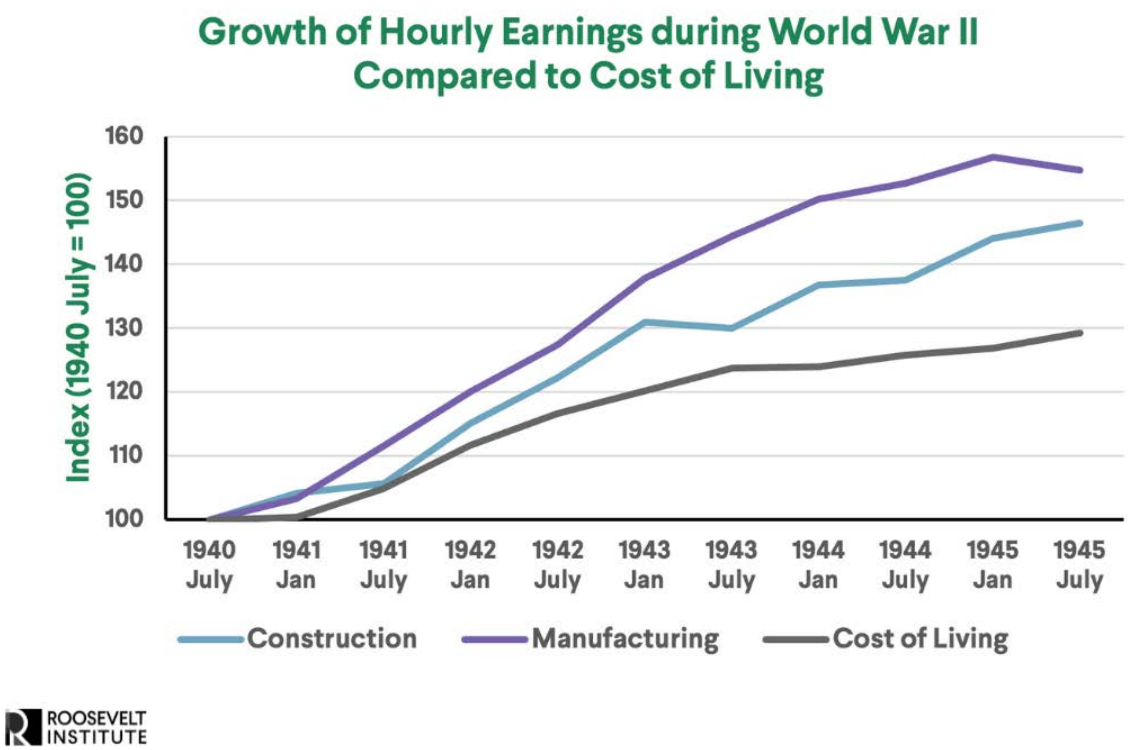
[23] Dunlop and Hill, *The Wage Adjustment Board*, p. 25.
[24] Dunlop and Hill, *The Wage Adjustment Board*, pp. 26-29.

as to be out of line with the general wages *then* prevailing"; where changing conditions in a local building industry required a revision in wages; or where stabilized rates "do not sufficiently take into account any abnormal changes in conditions." Under these exceptions to the stabilization program, the parties and the WAB gained the power to use wages to allocate labor to the remote regions of the country where few tradesmen lived and where existing rates in those regions were inadequate to attract labor for the new federal projects there.

The Conditions for Successful Labor Stabilization during World War II

Figure 1[25]



Labor's agreement to fix wages in a period of rapid growth in the demand for labor depended on three factors. The first was the Roosevelt administration's commitment to stability in the cost of living, signaled by the appointment of Leon Henderson as price administrator of the National Defense Advisory Commission in June 1940 and the creation of the Office of Price

[25] Data from Dunlop and Hill, *The Wage Adjustment Board*, p. 121 and the Cost-of-Living Index published by the BLS, accessible at https://fred.stlouisfed.org/series/M04128USM350NNBR.

Administration and Civilian Supply under Henderson's direction in April 1941. For industrial commodities, this also coincided with the authorization of priorities orders which interrupted the price system. Under Henderson's leadership, the OPACS (in August deprived of rationing powers and reduced simply to OPA) undertook studies of supply and capacity by commodity and industry, and met with industry managers to encourage them to take greater profits on volume rather than margin, postponing price increases until production rose to capacity. Henderson's office carried no statutory authority to control prices in this period, and after passage of the Emergency Price Control Act in February 1942, price policy remained constrained by the exclusion of agricultural (and thus food) prices from OPA control. Amendments to the statute in October 1942 removed this exclusion, and price increases fell from an annualized rate of 5.3 percent between February and October 1942 to an annualized rate of 1.4 percent from May 1943 to January 1946. Political struggle over not only authorizing legislation but the subsequent operation of the agency and its use of subsidies prolonged effective price control. As the Bureau of the Budget later wrote in its history of the mobilization program: "Ideally, a general ceiling should have been issued early in 1941, coincident with the development of priorities machinery for dividing up supplies of scarce raw materials."[26]

Tax policies were the second instrumental factor to stabilization in the cost of living, even though demand-reduction through higher taxes was notably inadequate without price controls. The fiscal policy of the World War II program entailed an explicit commitment to social cooperation through an equitable advance in incomes. As President Roosevelt announced in May 1940: "No new group of war millionaires shall come into being in this nation as a result of the struggles abroad." In the Second Revenue Act of 1940 passed in October, Congress raised tax rates on both corporations and individuals and imposed special temporary excess-profits taxes on corporate incomes to ensure rising revenues from expanded volumes of production did not accrue to the favor of any particular class of the community. Moreover, the president signaled a commitment to equity in individual incomes, proposing to raise the top marginal rate in the Revenue Act of 1942 to establish an effective "maximum income" for individuals. In this context, voluntary cooperation by organized labor in restraining and guiding the advance of wages for a prolonged period of tight employment was possible.

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[26] US Bureau of the Budget, *The United States at War: Development and administration of the war program by the federal government* (GPO: 1946), pp. 237. On the early struggles of the OPA, see also Elrod, op cit.

The third factor securing labor's participation in wage stabilization was the expanded collective bargaining powers of the Wage Adjustment Board (construction), the Shipbuilding Commission, and the National War Labor Board. These tripartite labor boards enjoyed the critical power to settle disputes. They consequently commanded the continued participation of their members and represented organizations. In addition to the power to settle disputes, the condition for the continued participation of union leaders on the National War Labor Board was the award of union security for all agreements under its purview.

The key predicate of labor's surrender of "self help" powers was the credible enforcement by the federal government of bargaining agreements, including union security clauses and board decisions settling disputes. Union's surrender of the right to strike would prove the most controversial among union-represented wage earners for the duration of the war. Nevertheless, as the Office of Price Administration proved unable to halt the rise in the cost of living during the first half of 1942, due to the exclusion of raw agricultural commodities from price control, the existence of labor organizations provided a framework for ending work stoppages by their members who took to wildcat strikes to demand defense against inflation. Such occasional interruptions to production displaced the struggle over real income from the price system to public boards and commissions. Employers, unable to raise prices to prevent a strike, were forced into hard bargaining, while resolution of disputes which might not have come from unrestrained local bargaining could be imposed by the boards on which union and business leaders from affiliated organizations sat. The context in which this bargaining took place facilitated the unprecedented performance of the US economy during World War II.

THE VIETNAM PRODUCTION PROGRAM: EXPANDING MILITARY EQUIPMENT DURING THE 1960S BOOM WITHOUT STABILIZATION AGREEMENTS

Unlike during World War II, the Vietnam War mobilization program did not begin with new legal institutions for public-private partnership in planning labor markets. Rather, the increase in defense spending that took place during the summer of 1965 occurred during the fourth year of an experiment in an economy-wide program of voluntary compliance with guidelines on wages and prices, and targeted development investments on a much smaller scale than what the war program would bring. The general guide for wages and prices did not provide a framework for resolving the short-term, sector-specific bottlenecks that developed during the acceleration of the expansion under the demands of the Vietnam War, nor did it immediately create the tripartite institutions that had contributed to success during World War II.

During World War II, the prospect of union security during a rapid expansion, in which the federal government professed commitment to equity in the growth of incomes, elicited eager participation by organized labor in wage stabilization. During the Vietnam War, by contrast, the White House openly declared an intention to place stability solely on labor income, inducing a recession in housing in 1967 and a general recession in 1970. Unsurprisingly, until President Nixon imposed controls with the upturn in 1971, wage stabilization proved impossible.[27]

Having experienced "premature" inflation—prices rising before full employment—in every economic expansion since World War II, President John F. Kennedy's Council of Economic Advisers (CEA) in 1961 developed a set of voluntary "guideposts" which suggested how wages and prices should behave if full employment was to be achieved with price stability. The guideposts prescribed a general increase in labor income limited by "the trend rate of overall productivity increases" (national output-per-person hour worked), which in 1962 and 1963 was calculated at 3 percent annually and rose to 3.2 percent in 1964 and 1965. Above-guidepost exceptions for wages were allowed for industries confronting a labor shortage, or where judgements of equity provided correction for substandard wage rates. Below-guidepost exceptions for wages were allowed for industries in which economic health was threatened by rising labor costs. For employers, the policy prescribed a reduction in product prices where industry productivity outpaced the growth of national productivity or where "excessive market power has resulted in rates of profit substantially higher than those earned elsewhere on investments of comparable risk." Where the industry's health required greater revenues, prices were allowed to "rise more rapidly, or fall more slowly."[28] The

[27] Paul T. Hartman and Walter H. Franke, "The Changing Bargaining Structure in Construction: Wide-Area and Multicraft Bargaining," *ILR Review*, January 1980, pp. 170-184. See also "Developments in Industrial Relations" in the November 1969, December 1969, and March 1970 issues of the *Monthly Labor Review*.

[28] There is an extensive and misunderstood literature on the Kennedy-Johnson wage-price guideposts. For the original guidelines themselves, see US Council of Economic Advisers, *Economic Report of the President*, 1962, pp. 185-90. See also John Sheahan, *The Wage-Price Guideposts* (Washington: Brookings, 1967), William J. Barber, "The

discretion entailed in applying these flexible guidelines proved a point of sharp contention as the Johnson administration came to rely on them for wage-price stability during the acceleration of military spending for the US intervention in Vietnam.

Organized labor adhered to the wage guidepost for four years. Whereas collectively bargained wage increases during the late 1950s had achieved annual rates as high as 3.9 to 5.4 percent, wage increases in the union sector of the labor market were kept to 2.8 percent in 1961, 2.9 percent in 1962, 3.0 percent in 1963, and 3.2 percent in 1964—exactly in line with the CEA's wage guide.[29] High profile price disputes occurred in the steel and auto industries, while the gradual pace of the expansion saw inflation kept to between 1.3 and 1.6 percent. Under this virtual price stability, growth of output saw a decline in unit labor costs in manufacturing and a consequent growth in profits. As a share of national income, corporate profits rose from 9.3 percent in 1961 to 10.7 percent in 1964.

The trend of growing profitability and a declining labor-share of national income accelerated with the increase in government expenditures for the Vietnam War. During World War II, the federal government constructed entirely new production facilities, in line with public procurement targets set years in advance and eventually reduced under guidance of civilian economists. By contrast, the Vietnam War not only relied on privately owned capacity to meet immediate production targets, but also lacked any long-term plan for peak production, relying instead on dollar-value projections for war spending calculated on the transparently fictional assumption that the war would end in the summer of 1967.[30] Moreover, the Pentagon concealed its actual estimates from civilian economists at CEA and the Bureau of the Budget. Thus, while the increase in defense appropriations and obligations, which began in 1965, stimulated a private-investment boom in defense industries—ammunition, tanks and vehicles, clothing and textiles, and food—it did so without the kinds of priorities and price regulations that maintained price stability during the reallocation of resources of earlier wars. As government spending bulged after the summer of 1965, the share of GDP taken by

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Kennedy Years: Purposeful Pedagogy," and James L. Cochrane, "The Johnson Administration: Moral Suasion Goes to War" both in *Exhortation and Controls: The Search for a Wage-Price Policy, 1945-1947*, ed. Craufurd Goodwin (Washington: Brookings, 1975), and for a contemporary debate see *Guidelines*, eds George P. Shultz and Robert Z. Aliber (Chicago: 1966).

[29] "Current Labor Statistics," *Monthly Labor Review*, issues for 1961 through 1964. "Labor in 1961," "Labor in 1962," "Labor in 1963," and "Labor in a year of expansion," in the January issues of *Monthly Labor Review*.

[30] Arthur Okun, *The Political Economy of Prosperity* (Brookings: 1970), p. 73.

private investment rose from 16.5 percent in the fourth quarter of 1964 to 18.1 percent in the first quarter of 1966.[31]

Compliance with the guideposts became increasingly controversial as military orders mounted and prices began to rise. In 1962, the steel industry had attempted to raise prices as unions practiced wage restraint; guidepost enforcement came directly from the White House. But as military stimulus diffused quickly across dozens of price leaders, direct presidential exhortation against proposed and declared price increases between September 1965 and January 1966 became increasingly taxing administratively, falling to an ad hoc committee of White House Chief of Staff Jack Califano and members of the CEA who met in conferences of increasing frequency with industry leaders. The ad hoc committee proposed ad hoc solutions to restrain price increases without statutory powers. In response to high-profile violations by major metals corporations, for example, the Department of Defense accelerated release of steel and aluminum from the national security stockpiles and the Department of Transportation announced the award of priority contracts for suppliers that did not raise prices.

On the wage side, the administration's lack of a standing tripartite body endowed with statutory powers likewise challenged stability. The fact that labor did not participate in the formulation of the guideline policy made unions' adherence to the wage policy seem like acquiescence to an employer-dominated government. The White House's CEA exacerbated this feeling as the inflation accelerated with a fateful alteration to the technical basis of the productivity figure used. Whereas in 1962 and 1963, the *Economic Report of the President* had calculated the productivity guide using the 1947 to 1960 trend, the 1964 and 1965 reports redefined this figure as a five-year moving average. Maintaining this moving average in 1966 would have yielded a higher productivity figure of 3.6 percent, as the recession year of 1960 dropped out of the window. Hoping to stabilize wages amid the growing threat of inflation presented by the pressure of military spending on raw materials producers, the CEA

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[31] Government expenditures on goods and services for the military were about $50 billion annually between 1962 and 1965. Congress stimulated this sector beginning with a $700 million supplemental military appropriation in May 1965, and an additional $14 billion in military appropriations by January 1966. At an annualized rate, defense obligations rose from $48.2 billion in the first quarter of 1965 to $77 billion in the third quarter of 1966. Murray Weidenbaum, *Economic Impact of Vietnam Spending*, reprinted in US Congress, Joint Economic Committee, 90th Cong., 1st Sess, pp. 194-236. Private investment shares of GDP are from BEA, also accessible at https://fred.stlouisfed.org/series/A006RE1Q156NBEA.

unilaterally departed from the five-year moving average and maintained the 3.2 percent figure as the numerical guidepost target for wages, without explanation, in the *Economic Report* released January 1966.[32]

Organized labor, which had long counseled against the wisdom of a numerical guideline for wages in the absence of a numerical guideline for prices, responded with great hostility to the administration's continuation of the guidepost without consultation and deliberation with the unions from which it expected compliance. As AFL-CIO president George Meany said, "Those are his [Johnson's] guidelines, not ours."[33] Suddenly, the problem of equity in the growth of incomes during the expansion, toward which labor had demonstrated a willingness to turn a blind eye during the period of price stability, became central to private compliance with voluntary stabilization policy. Arthur Burns, then of the National Bureau of Economic Research, warned the Republican National Committee of a coming "wage explosion."[34]

In the spring of 1966, the consumer price level began to rise. The annual rate of change, which had stood at 1.9 percent in December and January, rose to 2.6 percent in February, 2.8 percent in March, and 2.9 percent in April. While hourly wage rates in manufacturing and construction generally did not accelerate, the White House's advertisement of an official voluntary wage ceiling that provided increases below inflation proved a great stimulant to aggressive collective bargaining. Large strikes during 1966 centered on local leaders' express intention to achieve above-guidepost settlements and achieved national media coverage. *Life* magazine declared "Strike Fever" that summer.[35] As UAW President Walter Reuther described the situation, "The gap between what a worker produces in an hour and what he can buy for money in that hour has been steadily widening. The losses sustained by workers as a result of the inequitable sharing of productivity gains have contributed mightily to the swelling tide of profits . . . This enormous rise in nonlabor income, along with the lag in wages and an

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[32] Andrew Elrod, *Stabilization Politics in the Twentieth-Century United States: Corporatism, Democracy, and Economic Planning, 1945-1980* (Unpublished dissertation: 2021), pp. 440-442.
[33] "The Economic: A Soaring '66—If...," *Newsweek*, February 7, 1966, pp. 59-61.
[34] "Remarks by Arthur F. Burns at the breakfast meeting of the Republican Conference of the House of Representatives Washington, D.C. Wednesday July 20, 1966," W. Page Keeton Papers, Tarlton Law Library, The University of Texas at Austin, Box 97, Folder 7. "Our Nation's Economic Policy—Dr. Arthur F. Burns," *Congressional Record* vol. 112: 17082-5, 1966.
[35] "Why Tolerate the Excess of Unions," and Barry Farrell, "Labor Leaders: Tough, Remote—or Feuding," *Life*, August 26, 1966. These two articles ran under the cover-story title: "Strike Fever...And the Public Interest."

increasingly regressive tax structure, has produced a wrong-way income distribution trend . . . the wage policy proposed by the Council of Economic Advisers is extremely negative and grossly unfair."[36]

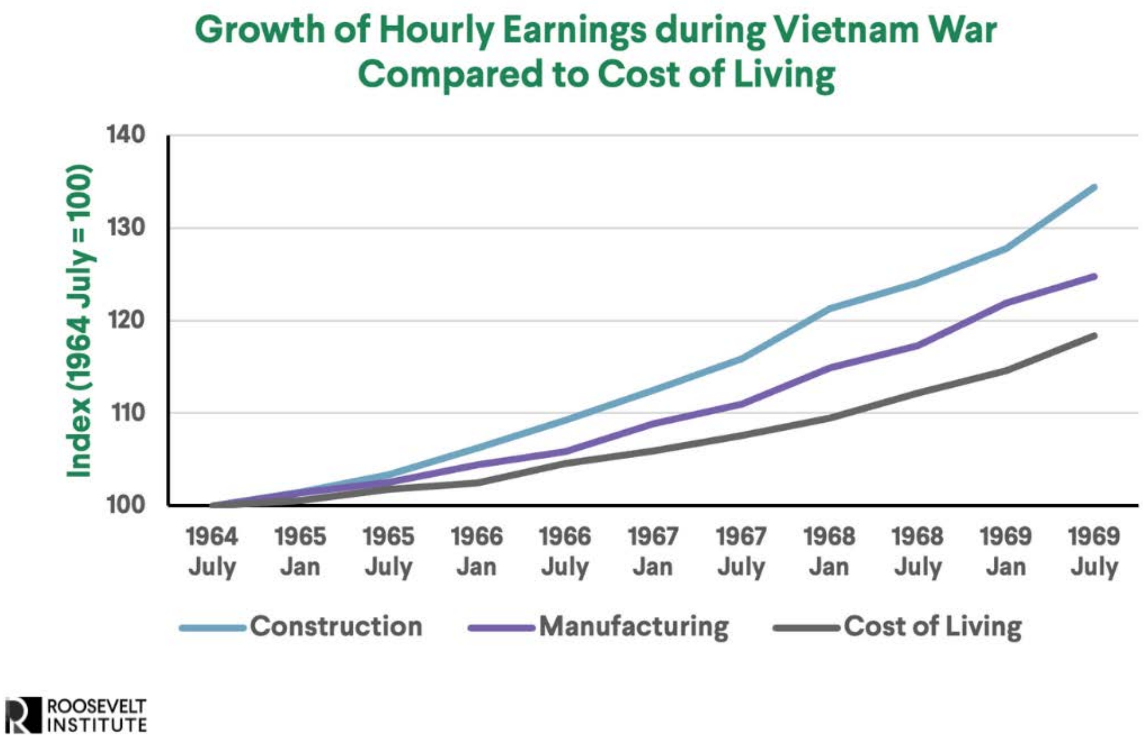
In this context, the Johnson administration and Congress took recourse to *de facto* sector-specific programs to both maintain compliance with the guidepost program and to guarantee continuation of vital services. During a nationally profiled strike of New Jersey operating engineers against the regional contractors' association, Secretary of Labor Willard Wirtz intervened repeatedly for six months in early 1966, proposing the creation of a joint labor-management fund to finance off-season construction projects in the region.[37] Likewise, for four months the Department of Labor and the White House attempted to mediate a dispute between a local of the International Association of Machinists and five airline companies, eventually establishing a Taft-Hartley board and mandating a cooling-off period that summer. When a strike finally began grounding 60 percent of the nation's trunk-line air traffic, the Senate considered legislation to take the five airline firms into federal receivership, allowing a wage increase without a price increase, and passed the bill as the strike entered its third week. When senators introduced a competing bill empowering the president to seize the companies, to fix profits and prices, and to establish working conditions, the AFL-CIO, with whom the sponsors did not coordinate their proposal, lobbied effectively to kill it. In August 1966, the Undersecretary of Labor finally achieved a settlement in the airline industry with a 4.7 wage increase.[38] The feared "wage explosion" was becoming a reality.

[36] US Congress, Joint Economic Committee, *January 1966 Economic Report of the President: Hearings before the Joint Economic Committee*, 89th Cong., 2nd sess., 1966, pp. 387-405.

[37] Seasonality in construction made large wage increases a desirable offset to declines in building, and Wirtz hoped to trade continuation of steady work for wage increases—a major impetus to successful wage restraint in construction during World War II.

[38] On the New Jersey Operating Engineers, see Elrod, *Stabilization Politics in the Twentieth-Century United States*, pp. 448-453, on the airline mechanics strike, see *ibid*, pp. 453-462.

Figure 2[39]



Conditions Promoting Instability During the Vietnam War

All three of the conditions that assured stability in World War II—price control, tax equity to govern the growth of boom-time incomes, and wage boards with representational legitimacy—were absent during the Vietnam War. The Johnson administration signaled no intention to alter the tax structure or to publicly influence wage-and-price decisions in a manner that ensured an equitable distribution of rising corporate revenues. While a set of "wage-price guideposts" existed for exhortatory guidance, during the onset of the Vietnam War they failed to arrest the growth of corporate profits and the cost of living. Even if they had done so, there was little reason for organized labor to participate in wage restraint without institutions representing wage earners endowed with public authority to settle disputes.

The income effects of fiscal policy illustrate how White House programs for macroeconomic restraint promoted instability. While President Johnson signaled a commitment to "fiscal

[39] Data from US Department of Labor, BLS, *The Hourly Earnings Index, 1964-August 1975*, Bulletin 1897, and the Consumer Price Index published by the BLS, accessible at https://fred.stlouisfed.org/series/CPIAUCSL.

restraint" in 1966, the form this deficit reduction should take—an increase in top-end individual and corporate income tax, or general excise taxes on consumption paired with austerity in non-military programs—was sharply divisive in Congress. The president offered effectively no guidance to mobilize support for a solution. Despite pervasive historical and economic misinterpretation that fiscal restraint was not taken during the Vietnam War, Congress did cut civilian spending and raise taxes: In November 1966, it suspended a 7 percent investment tax credit, an effective tax increase on corporations, and in April 1968 it followed with an across-the-board tax increase on individual incomes. The Federal Reserve also raised interest rates in 1965 and 1967. But fiscal-monetary restraint failed to defeat the round of aggressive wage increases intended to "catch up" with both rising prices and with the growth in profits in the period since wage restraint had begun in 1962. In fact, even as fiscal-monetary restraint induced what Arthur Okun called the "weak overall economic outlook" in early 1967, wage increases began to outpace the cost of living.[40]

Widespread perceptions among wage earners of inequity in the growth of incomes resulted in a wage offensive. This was particularly evident in the construction industry. Not only did the investment boom provide many local construction unions with alternative work, allowing them to prolong strikes against individual firms and demand larger wage increases. The collapse in residential construction from contractionary monetary policy also became a regular justification in local bargaining as unions argued that wage increases were necessary to offset lost periods of work.[41] Employers competing for labor had little ability to hold down wages, even as monetary policy depressed the housing industry. A comparison of the relative hourly wage rates between construction and manufacturing shows just how aggressive wage bargaining by building trades locals became during the Vietnam inflation. Whereas during World War II, early stabilization for a planned expansion brought the increase in construction industry wages down below the increase in manufacturing, compressing the inter-industry wage structure, the delayed and uncoordinated stabilization during the

[40] The year 1967 saw contract openings for many large collective bargaining units. Average hourly earnings for the total private work force increased by 4.2 percent during 1967, while the annual average of the Consumer Price Index rose by 2.8 percent. "Current Labor Statistics," *Monthly Labor Review*, January 1968. The historiography generally agrees that the summer of 1966 saw the abandonment of the guideposts. "By the beginning of 1967, the boom was no longer a threat," wrote Okun. Arthur M. Okun, *The Political Economy of Prosperity* (Brookings: 1970), pp. 82-3. Hyman Minsky described the 1967 slowdown as a "mini-recession." Hyman P. Minsky, "The Crunch of 1966—Model for New Financial Crises?," Journal of Commercial Bank Lending (August 1968), p. 1.
[41] Marc Linder, *Wars of Attrition: Vietnam, the Business Roundtable and the Decline of Construction Unions* (Fanpihua: 2000).

Vietnam War allowed construction settlements to far outpace manufacturing wages and contributed to a general distension of the wage structure in the collectively bargained areas of the labor market.

By 1968, the wage offensive in the building trades had become an issue of national concern. The median first-year negotiated wage increases for construction union contracts that year was 11 percent of average hourly earnings. By comparison, the median first-year increase in the manufacturing industry was 5.2 percent.[42] The AFL-CIO, in which the building trades held a commanding influence, had long warned the Johnson administration that it would not cooperate with an anti-inflation program that exclusively targeted labor income. As early as February 1966, during the dispute between the labor federation and the White House over the numerical guidepost figure, the federation's Executive Council declared, "the AFL-CIO will cooperate so long as such restraints are equitably placed on all costs and incomes—including all prices, profits, dividends, rents, and executive compensation, as well as employees' wages and salaries."[43] No such restraints were placed on non-wage incomes throughout the 1966 to 1969 expansion. As a result, organized labor did not cooperate with the anti-inflation program but rather aggressively pushed up wages and labor's share of national income. Hostility between organized labor and Washington, DC proved a poor basis for successful stabilization.

When the Nixon administration, in September 1969, established a Construction Industry Collective Bargaining Commission (CICBC) to make recommendations for national standards to guide bargaining in the runaway industry, national leaders who participated found it impossible to impose standards on local bargaining grown aggressive through three years of accelerating inflation.[44] Combined with the runaway of energy and food prices during the global petroleum crisis of 1971 to 1974 and the Nixon administration's simultaneous agricultural export drive, the wage offensive opened intellectual and political consideration of unemployment as a stabilization device.

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[42] Dollar amounts for median negotiated increases from Linder, *Wars of Attrition*, p. 61, while hourly earnings by sector are from US Department of Labor, BLS, *Employment Hours and Earnings, United States, 1909-1984, Vol. 1*, Bulletin 1312-12.

[43] Joseph Goulden, *Meany* (1972), pp. 349-51. "The Economic: A Soaring '66—If...," *Newsweek*, February 7, 1966, pp. 59-61. "Construction Workers Bar Pay Demand Curb," *Washington Post*, February 18, 1966, p. D6.

[44] Richard Nixon, Executive Order 11482—Establishing a Construction Industry Collective Bargaining Commission Online by Gerhard Peters and John T. Woolley, The American Presidency Project, https://www.presidency.ucsb.edu/node/305998. Linder, *Wars of Attrition*, pp. 235-9.

The patent failure of the Johnson administration's wage guidelines amid rising prices in 1966 and 1967 signaled that the US executive was discarding serious consideration of an incomes policy. The Nixon administration's public discontinuation of price surveillance in 1969 and 1970 continued this policy direction and was followed by an explosion of prices.[45] Yet when the Nixon administration met this stabilization challenge with fiscal-monetary contraction and the unemployment it was designed to produce, the simultaneous inflation and recession of 1970 had the effect of intensifying wage demands in construction and heightening antagonisms in the nation's industrial relations. Stability was elusive: Nixon's brief flirtation with wage-and-price controls continued the Johnson administration's unilateralism—the tripartite Pay Board did not have final authority to resolve disputes. The resulting wage program inaugurated with price controls in 1971 enjoyed neither the voluntary participation of organized labor nor, after 1972, the presumption of full employment as a goal of national policy.

At no time during the Vietnam War did Congress or the White House seriously signal the possibility of a restructuring of the tax code to slow the growth of top-end incomes accompanying the boom. Instead, the onus for economic stabilization fell officially to labor. In this context there was little reason to expect participation by organized labor in any stabilization program.

CONCLUSION: STABILIZATION BARGAINING AND THE CONDITIONS FOR STABILITY

From the 1930s to the 1970s—the birth decades of modern macroeconomics—national governments understood the imperative of what they came to call a "wages policy." Whether conceived of as "centralizing" union bargaining policy, forging agreements between different labor organizations and employers, or broadening the scope of bargaining to include the composition and level of production, prices, and investments, all manner of full-employment policy rested on a shared observation that the regime of individual bargaining, in which employers bid for recruitment through unilateral control of wages, was prone to instability and had to be adapted to the high-demand environment. The reason individual wage

[45] Arthur M. Okun, *Inflation: The Problems and Prospects Before Us* (Brookings: 1970), pp. 43-49. The acceleration in the CPI during 1969, a year of fiscal contraction, makes the effect of this relaxation of price surveillance obvious.

bargaining was inflationary at high employment was that no higher authority existed for allocating labor among employers in a competitive economy.

The examples considered here took place both with and without statutory powers to fix wages, but in all cases they relied heavily on widespread coverage of labor markets by collective bargaining. Collective bargaining enabled decisions over the level and structure of wages to be made relatively autonomously from decisions over the level of demand and employment. This was of enormous significance to stabilization policy, but only with the support of those whose wages were to be regulated through the new bargaining institutions.[46] While employers and their representatives tend to fear periods of rising wages as evidence of "overheating" and excessive labor strength, apprehendable only with unemployment, such periods of runaway wages have historically been evidence of disorganized rather than organized labor markets. Successful wage restraint, by contrast, requires workers to exercise power—both over themselves and, through the government, over the macroeconomy.

The US entrance into World War II took place amidst the growth of collective bargaining, from just one-tenth of the civilian labor force in 1933 to one-fifth in 1939. In preparation for a fully mobilized economy, effective stabilization planning required the further expansion of collective bargaining in new regions and industries to keep wages and prices from running away. By the end of the Korean War, one-third of the nation's wage and salary earners determined their wages through collective bargaining.

With the spread of union representation during the mobilizations of the 1940s, most attuned observers on both sides of the Atlantic prescribed the expansion and consolidation of firm- and industry-level bargaining to bring a greater share of the labor market under union-administered wage rates.[47]

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[46] "The unionized sector of the economy has become so large and the task of staying unorganized so difficult that wage rates under collective bargaining may be said to determine wage rates throughout the industrial sector of the system. There are consequently a limited number of key bargains which decisively determine the level of wage rates in the industrial sectors" Dunlop, op cit, p. 251; Sumner H. Slichter, "Wages and Prices," Proceedings of the Academy of Political Science, May 1948, pp. 62-63; Sumner H. Slichter, "Are We Becoming a 'Laboristic' State?" *New York Times Magazine*, May 16, 1948; see also the sources in supra n. 2 and n. 5.

[47] At its 1941 annual meeting, the president of the American Economic Association Sumner Slichter suggested in his presidential address on the conditions for stable economic growth that "Larger units of decision would help. Wage policy, for example, which is now made by groups too small to feel much responsibility for the general level of employment, might be made by units such as the United States Chamber of Commerce and the National Association of Manufacturers, on the one hand, and the American Federal of Labor and the Congress of Industrial Organizations, on the other," Sumner H. Slichter, "The Conditions of Expansion," *American Economic*

By providing a collaborative framework—tripartite in nature—for the growth of collective bargaining, the shipbuilding and construction stabilization programs of 1940 through 1942, and eventually the manufacturing program, allowed a tremendous inflow of labor into depressed industries with an impressive degree of stability. By contrast, the unilaterally declared wage guideposts of the 1960s proved unworkable in a context of tight employment and product markets. Instead, the guideposts provoked a wage offensive which turned the inflationary spiral in the crucial opening years of the fiscal expansion.

Wage policies were thus an integral or disintegrating element of broader national economic programs. During World War II, organized labor supported and gave legitimacy to the phasing of the mobilization program, while during Vietnam there were no large-scale attempts at prioritized planning and labor resisted those efforts that were made without its participation. During World War II, the growth of new building construction enabled by wage stabilization preceded the peaks of both the shipbuilding and armaments manufacturing programs. The factories and shipyards had to be built before they could be staffed. Switching investment patterns depended on a broader array of economic instruments; during 1943, almost all new construction, save defense-area housing, was halted by OPM limitation-of-use orders. Unapproved projects were given lowest priority access to raw materials. The pursuit during the Vietnam War of an indirectly coordinated general expansion proved by contrast an inefficient method of allocating resources, with inflation occurring as a result. There were no limitation-of-use orders during the Vietnam War; whereas the World War II production program was guided by numerical targets for the final product mix for several years in advance, public planning for the Vietnam War proceeded on a year-by-year basis. Eventually, events compelled the Nixon administration to move toward so-called "microeconomic" interventions in selecting the construction industry as a sector for wage restraint, but in the context of prolonged inflation and government refusal to stabilize incomes other than wages, it met considerable labor resistance.

Review, March 1942, p. 2; Beveridge, *op cit*; Meidner and Rehn in Turvey, *op. cit*. Colin Crouch has written about the need for economic representation to "encompass" larger units for effective macro-stabilization, e.g., Crouch, "Neo-Corporatism and Democracy," in *The Diversity of Democracy: Corporatism, Social Order and Political Conflict*, eds. Colin Crouch and Wolfgang Streeck (Edward Elgar: 2006). As Wolfgang Streeck writes retrospectively, "the Keynesian state needed strong unions that encompassed the whole workforce," in *Buying Time: The Delayed Crisis of Democratic Capitalism* (Verso: 2014), p. 111.

The current administration's response to the inflationary economy has shown a renewed interest in some of the tools of our national history. But, while targeted price interventions in prescription drugs and petroleum and refined products do reflect a renewed consideration of the sectoral contributions to a rising cost-of-living, the overall strategy of the Biden administration has been to assist, through fiscal contraction, the Federal Reserve in introducing slack into the labor market, in the hopes that falling sales will reduce employers' hiring demands and workers' individual bargaining power. This has enormous costs as the impact of slowdowns tend to fall disproportionately upon Black and Hispanic workers, hurt Black women most severely. Black women saw the highest rate of unemployment in the aftermath of the COVID-19 pandemic, and more recently, Black unemployment was at 5.3 percent as of December 2022—almost twice as much as white unemployment, at 2.9 percent. Slowing down growth also fails to directly address the key impetuses of rising wages at full employment: a rising cost of living and the inequitable growth of top incomes. Sustaining full employment, as opposed to retreating from it, will be impossible without a program to address those sources of wage pressure, which will require forward planning to elicit greater capacity and supply and to reduce full employment rates of profit.

During and after World War II, the costs of unemployment were recognized, and instead of engineering socially inequitable and economically wasteful fiscal contractions, the government created institutions that helped manage the economy democratically. This history is critical as we look for a path forward in the current inflationary moment and as we try to be better prepared in advance of future threats of rising prices. Progressives interested in developing tools to manage a hot economy should look to sectoral bargaining by unions with representational legitimacy and economic power as a way to not only grow the labor movement but to create a basis for advancing those broader institutions necessary to put labor back at the center of the management of the economy.