CHAPTER 6

LABOR-MANAGEMENT RELATIONS IN A CONTROLLED AND RATIONED ECONOMY

ARNOLD R. WEBER *

I have been asked to talk about labor-management relations in a controlled and rationed economy. The title has a Wagnerian ring to it as if the end of the world impends. In reflecting on the topic, I hope I'll be able to convey to you that it is more romantic than realistic in the sense that it sharply exaggerates the significance of recent events on basic bargaining practices and institutions.

The implication of the topic is that the 33-month experiment with direct wage controls and the emergence of something called the "energy crisis" has had a profound effect on labor-management relations in the United States. I will contend that the really important observation is that very little has changed.

The initial theory of dire consequences was not illogical since both the imposition of controls and the emergence of the energy shortage were major developments. Indeed, controls obviously involve the intrusion of a third party into labor-management relations and the presumption is that this intervention would have a distorting, if not repressive, effect on the way we conduct labor-management relations. After all, controls could not be viewed as neutral by design. Instead, they reflected the judgment that the conduct of labor-management relations was no longer acceptable in terms of their economic outcome. Therefore, you would expect the imposition of controls to alter the normal behavior of the parties in accordance with a set of administratively defined rules.

On the other hand, the energy shortage can be distinguished from the probable impact of controls. Thus, the primary thrust of the energy shortage is likely to be redistributive in nature. It

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redistributes bargaining power, it would redistribute income, it would alter the outcomes of collective bargaining. In this respect, the energy shortage could be approached very much as we analyzed the impact of technological change. Accordingly, the outcomes that command the greatest interest are the impacts on employment, wages, and bargaining power.

Expectations and Adjustments

Recognizing that the controls program might be expected to modify or distort labor-management relations and that the energy crisis might be expected to have a redistributive effect, what are the precise expectations or hypotheses with respect to these two developments? At this point it is clear that the record of experience is more complete for controls than for the energy shortage. Controls, as you all know, were imposed in August 1971. It's significant to note in passing that if you would have asked any of the people who were there if the controls would still be in effect in 1974, even though they now appear to be on their last leg, you would have had very little support. The expectation in 1971 was that they would be gone by the end of 1972; but the durability of controls has been great, and they are still with us. On the other hand, nobody is sure whether there's a real energy shortage, and if it is real, it has been with us for only six months and the pattern of reaction is not yet clearly developed. Accordingly, most of my comments will relate to the effects of controls rather than to the energy crisis, but references to the energy crisis will be made where appropriate.

In analyzing the course of labor-management in a "controlled and rationed economy," you might predict five sets of reactions. First, both controls and the energy shortage might be expected to increase uncertainty on the part of labor and management at the bargaining table and to engender ways of dealing with that uncertainty. The uncertainty arises from two sources. With reference to controls, the uncertainty relates to the nature of the rules developed and the manner in which they will be administered. This uncertainty is intrinsic in the process of regulation, and anybody dealing with the controls system had to understand that. Would the rules change, and given any set of rules, how would they be interpreted? Both unions and managements had to make assumptions concerning bureaucratic behavior and adjust their behavior accordingly.

The energy crisis has given rise to its own form of uncertainty. There is uncertainty concerning its magnitude, uncertainty focusing on who will be really affected by the shortages. We like to say in basic economics courses that we have a terribly complex economy and, having said it, accept the statement as revealed wisdom. When something like the oil boycott takes place, we learn how complex the economy is. It's easy to say that automobile production will be affected, but it isn't obvious that aluminum production would be affected because when the price goes up, the steel companies burn the residual tars in their furnaces; and when they burn the tars, there is nothing to sell to the chemical companies who use the tars to produce the basic compounds necessary for aluminum production. This set of reactions is not obvious, but it can be equally portentous to the parties. Similarly, the 55 miles per hour speed limit has a heavy impact on the power of particular groups, such as truck drivers. Thus, a high element of uncertainty is posed by the energy shortage as well as by controls. If the parties are pragmatic, they will identify the nature of the uncertainty and take an "insurance approach" by finding some way to hedge their risks.

The second expectation with respect to controls and the energy crisis is that they will affect the distribution of bargaining power in labor-management relations. There is a natural configuration of bargaining power in most labor-management situations. For example, the construction unions are strong because they control the supply of labor; and construction employers are weak because there are many small firms and they operate in a highly competitive environment. With the onset of controls, I would expect that effective bargaining power would be modified in favor of the large unions and the larger bargaining units. The large unions were represented in the regulatory process by membership on the Pay Board and later, the Labor-Management Advisory Committee of the Cost of Living Council. The union representatives included officers of the Teamsters, the Steelworkers, the Automobile Workers, and other unions that have muscles and know how to flex them. The management representatives included representatives of the petit bourgeoisie such as General Electric and Continental Oil.

In addition, to the extent that bargaining power became a matter of finesse in dealing with the bureaucratic processes, the larger units clearly had a comparative advantage. When the wage control regulations were drawn up, the Pay Board and the Cost of Living Council staff viewed them as the picture of simplicity. But to the shop steward in Peoria, they had all the clarity of the instructions for the assembly of a Japanese sewing machine. In order for a union to press its case effectively, it was desirable to hire a lawyer, and it was better if the lawyer was in Washington. This situation implied that "bargaining power" in this broader sense would accrue to the large and canny unions and, in fact, I maintain that this is what happened.

With respect to the impact of the energy crisis, the shift in bargaining power initially would be direct and defined by economic factors. It would move bargaining power away from the users of energy, that is, those industries with a large dependence on oil, such as automobiles, and toward those industries and unions that produce power, that is, coal. Once again, we will find that there are certain subtleties associated with this shift in power that are revealed over time.

A third set of expectations is that you would foresee an increase in the incidence of industrial conflict. Wage controls were established to limit the parties' discretion, and when somebody says "No," people usually get angry. On the Pay Board, we used to say that each decision—even though it might be favorable—would make one ingrate and two enemies. Thus, you would expect that a given union, with the implicit support of management, would test the system through a higher incidence of strikes. That's been the record throughout western Europe during periods when so-called incomes policies have been used. Further, conflict could have been predicted when the labor representatives walked off the Pay Board in March 1972, formally withdrawing from the national consensus that's necessary to make any controls system work. Similarly, with respect to energy, you would also expect conflict to arise because the thrust of the new situation would be to sharpen union demands for employment protection. In addition, it would set in motion political tensions between factions within unions over the impact of this redistribution of bargaining power on job security and employment opportunity.

The fourth expectation is that these two developments would affect the outcomes of collective bargaining. If, in fact, wage controls and the energy crisis have an impact, wages should be lower and the agreements should show a greater emphasis on job and income protection.

Last, there would be some expectation that both these wage controls and the energy crisis would have the effect of increasing the dependence of the parties on the government. The late George Taylor used to describe collective bargaining as a "freedom"; it wasn't merely a process of wage setting, it wasn't a Stiglerian system in industrial jurisprudence, it was a "freedom." It was the right to make your own agreement in a way that was satisfactory to the parties who have to live with that agreement. That's not an inconsiderable right, and Taylor described it most appropriately as a "freedom" in the basic sense. The implication is that when the government intrudes in the process—when you're dependent on fuel allocations for the maintenance of employment and rulings by government boards concerning wages—this will have an enfeebling, if not corrupting, effect on the labor-management process. Presumably, union leaders and management officials now learn that the way you make the process work is by greasing bureaucrats and by developing symbiotic relations with government officials. Thus, the real danger is that somehow institutions characterized by their quality of freedom and vigor would atrophy, and labor-management relations would be determined by the government in one way or another.

The Continuity of Labor-Management Relations

These are the expectations. What has been the experience?

First, how have the parties dealt with uncertainty? There are many ways you can deal with uncertainty. You can go to shorter contracts. You can put a reopener in the contract to serve as a safety valve if the situation has sharply changed. And you can provide for automatic wage adjustments by linking them to some variable like the cost of living.

In fact, all of these things have happened, and they've happened in a relatively orderly and constructive way. In the construction industry particularly, the major reaction to controls has been to shift to shorter contract terms. In 1970, approximately 16 percent of all construction union contracts were for one year.

Currently, around 82 percent of all contracts are for one year. This reaction reflects the fact that construction unions generally have not adopted escalator clauses. By reducing the contract duration, they obviously can adjust more rapidly to changing economic conditions. Some observers have characterized this development as "the coiling of the spring."

Other unions operating in a more stable economic environment have chosen to strengthen and extend escalator clauses. In the recent past, the effectiveness of escalator clauses had been diminished by the decline in the proportion of buying power they "recaptured" for the covered employees. Under existing formulas, the "recapture rate" had declined to 66 percent. Several unions have now renegotiated the formula so that the recapture rate is now about 80 percent. In addition, the principle of escalation has been extended to new sectors, the most significant of which has been public employment. This development will probably give fits to municipal budget-makers all over the country, but again affords workers a shelter to uncertainty.

The efforts to deal with uncertainty also have stimulated the application of escalation clauses to nonwage economic issues. Probably the greatest innovation that's taken place has been the application of the escalation principle to pension benefits. This breakthrough was made in aluminum and has been extended in one form or another to the can and steel industries, setting a mark for all the other greyhounds to chase as they enter the bargaining arena.

It's fair to say that our expectation that the intrusion of controls and the energy shortage would engender uncertainty and ways of dealing with this uncertainty have been validated. Moreover, the pattern of reaction has been constructive and consistent with existing labor relations practices.

The second expectation is that there will be a redistribution of effective bargaining power. You'll recall that I indicated that large unions would fare better under a system of controls than would small unions. In fact, if you examine the Pay Board approvals with respect to the size of the bargaining unit, there's a clear positive relationship; the larger the bargaining unit, the higher the average wage settlement approved by the Pay Board and the Cost of Living Council. Clearly, what happened was that management and labor in the larger bargaining units were in a position to evoke considerations of equity more effectively and were more adroit in pressing their cases through the bureaucracy. In addition, it was tacitly recognized that large units could make wider ripples in the economy if conflict developed.

The impact of the energy crisis on bargaining power is not yet clear. One thing we do know is that the United Mineworkers will make a dramatic comeback after a long period in which its power in the economy has been reduced. Now, for the first time in 25 years, coal—and hence the UMW—will play a highly visible, if not critical, role in the economy. If Arnold Miller doesn't know how to exercise his new bargaining power, he can then take a lesson from his British brethren whose militance recently toppled a government.

Beyond coal, there are various subtleties in the shift of bargaining power. For example, if you consider the construction unions, you would say their bargaining power won't be augmented because the housing industry is in disarray and there has been the emergence of active nonunion competition. As a matter of fact, these unions do have leverage in specialized sections of the industry, such as the mechanical trades in the construction of new power plants. Although the construction trades in general might be in a less favorable position, individual business agents can still exploit local opportunities.

Overall, there is reason to believe that there have been significant shifts in bargaining power. However, these shifts have been across bargaining situations rather than between labor and management in general. It's interesting to note what has happened to union organization, which is another proxy for power. Indeed, very little has happened. In fact, the union win-rate in NLRB elections is now as low as it's been for the past 40 years. There has been a subtle redistribution of power, but not an aggregate change in the capacity of one group on a class basis, that is, labor, to inflict harm on another group, that is, management.

The third category of reaction relates to the incidence of industrial conflict. Here, the big news is no news. Despite all the controversies associated with controls and the shock effect of the energy crisis, the level of industrial conflict actually subsided over the past two years. In the past two and a half years, there were only two strikes that could be identified as protests againt rulings of the Pay Board or the Cost of Living Council. One strike involved a printing company in Connecticut, which promptly rendered the case moot by going out of business. The other strike involved the New York City hospitals, and it was ultimately resolved to the parties' satisfaction. Further, if you examine the aggregate strike statistics, they show a prolonged decline, so that by 1973 they were at a nine-year low.

How do you explain this? It seems to me that you have to conclude that the operation of the stabilization system was not really onerous; if it had been onerous, then labor would have reacted in a more forthright manner. Also, the major grievances of labor with the controls program were largely resolved by legislative and judicial action. The major grievances were the issues of retroactivity, the definition of "working poor," and the ruling in the aerospace case. In each instance, labor ultimately got what it asserted was justice. Whether or not justice was at stake, the outcomes reflected labor's position and interests.

Beyond these tactical developments, it was just not feasible or politic for labor to challenge the system directly. This realism was buttressed by a basic sense of responsibility. If labor would challenge the system, it would not be by calling a general strike, but by lobbying in Congress, which is probably the way they should do it.

Fourth, what's been the impact of controls and the energy crisis on the outcomes of collective bargaining? Here again, it seems to me the big news is no news. The surprising factor has been the inertia and continuity of the subject matter and the nature of collective bargaining settlements over the last two and a half years. After two years of controls, you did see a greater emphasis on pensions. This might have happened as a normal course of events. However, pensions and fringe benefits were more attractive because the Pay Board made them more attractive. Also, they afforded greater "flexibility" in their calculation. That is, by adjusting the funding of past service liability or other factors, you can transform an 8-percent increase into a 6-percent increase. But reaction to this did not happen until the end of 1973. In general, the parties went about their business in a conventional manner and, with the exception of the aggregate value of the agreements, the outcomes of collective bargaining were very similar to the outcomes that would have been forthcoming in the absence of controls.

The last category of analysis concerns collective bargaining as a "freedom." Have recent developments had a debilitating or corrupting effect on collective bargaining? Well, I don't know how you measure this, but it seems to me that whatever collective bargaining's virtues might be, they remain intact.

Was there a dilution of creativity? In this period you had the Experimental Negotiating Agreement in steel, one of the most creative modifications in the process of bargaining that's taken place since the Federal Mediation and Conciliation Service was created. Has there been any indication that organized labor or management have preferred to play the game through government agencies? As a matter of fact, the evidence indicates just the opposite. They have preferred to play the game by maintaining the arm's-length relationship both within the bargaining process and with the political leaders. There is little evidence that "deals" have been made as substitutes for collective bargaining. In this respect, the parties have withstood a temptation of enormous magnitude as they went through this process.

Overall, if you look at labor relations in a controlled and rationed economy, it seems to me that the big news is the stability of our institutions and practices. What happened is what you would reasonably expect to happen. If you assert that the test of collective bargaining as a "freedom" is its capacity to adapt to dramatic changes in the environment without compromising the integrity of the basic institutions and practices, then the bargaining system has met this test. The evidence of the past two and a half years should be the cause for some comfort, if not acclaim, rather than deep fears that the progress of 40 years will be swept away.

Comment—

BENJAMIN AARON *

I shall limit my remarks to a few brief comments about the general topic, after which I shall try to make a modest contribu-

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tion to its development by contrasting the situation in the United States with that in Britain, where I spent the calendar year 1973.

Mr. Weber characterized the subject of this session as a "nonevent," and that is also my point of departure. In a sense, our program today has been overtaken by events, and much of its relevance has disappeared. Our economy is now almost completely decontrolled and unrationed, unless one contends that the allocation of a scarce resource such as gasoline, solely on the basis of ability to pay the sharply inflated cost, is a form of rationing.

My assumption, therefore, was that in this session we would be conducting a post-mortem on the late wage-price controls program. But perhaps the metaphor is inapposite. One purpose of a post-mortem is to learn what killed the patient and thus to add to existing knowledge about the disease. It is doubtful, however, that what we learn about former anti-inflation programs is ever very useful in dealing with future crises of a similar nature. This is because the initiation of such programs is more a response to compelling political pressures than an implementation of a reasoned conclusion, based upon a consensus of expert opinion, that the new anti-inflation policies will achieve clearly perceived and generally acceptable goals.

Moreover, it has yet to be demonstrated that our past experience has taught us how to combat inflation and critical shortages successfully. I am not aware of any particular incomes policy that has succeeded over the long term anywhere in the world. In this connection, I am reminded of a statement made a few years ago by Robert Solow, an economist who, with the possible exception of Mr. Weber, speaks more intelligently and intelligibly on this subject than does the great majority of that fraternity of mystagogues to which they both belong. In testifying before a congressional committee, Solow remarked that if it were possible to develop a successful incomes policy, some country would have done so by now, if only through dumb luck, because so many experiments have been tried in so many parts of the world.

It is likely, however, that our economy is entering a new phase in which some restraints on wages and prices, among other things, will be necessary on a permanent basis. The question is whether this can be done without formal government controls. I was discussing this question just before our session got under way with Ben Rathburn, of The Bureau of National Affairs, Inc. He was saying that John Dunlop, the head of the Cost of Living Council, had been trying desperately to convey to business and labor leaders some sense of urgency about the need to exercise self-restraint when controls were lifted. We agreed that 20 John Dunlops, all operating simultaneously, might have some small chance of success in this effort; but as we all know, there is and can be only one John Dunlop.

Assuming for the sake of argument, however, that wages and prices were to remain under governmental restraint for an indefinite period, some of the results would be fairly accurately predictable, based on our experiences with such controls in World War II, the Korean conflict, and the most recent period. I shall mention a few.

First, there would be an increased tendency to arbitrate interest disputes. One reason might be that the bargaining partners concluded that hard negotiation, followed by arbitration of unresolved issues, costs less than strikes and produces equally acceptable results. This appears to have been the motivation behind the recent Experimental Negotiating Agreement in the basic steel industry. Another more common reason would be that the parties wished to put the burden of difficult but necessary decisions on the shoulders of a neutral third person. As Harry Shulman used to say, "When the parties need to save face, the umpire's face is expendable for that purpose." Thus, if the results of a wage bargain were predictably unacceptable to the rank-and-file workers or to a board of directors, the parties might well decide to put the onus for those results on an arbitrator. It is a matter for consideration whether an arbitrator, in those circumstances, has a duty rising to the level of a professional responsibility to base his award strictly on the recognized policies of the Government.

Second, we could expect an expansion in the variety of, and amount of employer contribution to, fringe benefits. When wages are restrained, the natural ingenuity of the parties finds other outlets for funds that would otherwise have been granted in the form of wage increases. A well-known example is pensions: Without the impetus provided by wage stabilization in World War II, the development of pension plans would not have proceeded as rapidly as it in fact did. Wage stabilization during the Korean conflict produced a similar rapid development of health and welfare programs. And so, with each new wage stabilization period, we see the development of some new kind of fringe benefit. The most likely candidates for development in the near future are group legal services, extended vacations and "sabbatical leaves," and substantial extension of health care benefits into such areas as dental and psychiatric care.

Third, we could probably anticipate more rank-and-file unrest within unions, as different groups perceived, from their particular angles of vision, that prevailing arrangements were unfair. They would tend to take out their resentments not only against their employers but also against their union officials, at least in situations in which the latter appeared to be supporting the status quo.

Fourth, we could expect renewed and relatively more successful efforts to organize the unorganized. In the recent stabilization period, organized workers tended to receive more than the maximum general wage increase permitted under governmental regulations. This was made possible only because large numbers of unorganized workers received less than the maximum permitted. One would suppose that, in time, the latter group would catch on to the fact that they were subsidizing organized workers and would consequently become more receptive to the idea of organization.

Now, I should like to add just a few words on the comparison between Britain and the United States. In Britain, the imposition and continuance of wage and price controls has not, and under present circumstances would not, lead to a greater resort to arbitration of interest disputes. In the first place, the British industrial relations practice, unlike that in most countries, does not recognize a distinction between disputes over rights and disputes over interests. Every dispute is regarded as one over interests; hence, if the union's demand conflicts with what the labor contract provides, the pressure is directed to an immediate change in the contract or, alternatively, to a management response that ignores the provision in question. In the second place, the conception of substituting arbitration for industrial action is completely unacceptable to British unions. They put their trust entirely in their ability to achieve their goals through the use of economic force, and they regard third-party intervention with suspicion. Yet, despite their apparent success in organizing the labor force in both the public and private sectors, and in winning individual industrial battles, British workers are poorly paid relative not only to the United States but to most of western Europe as well.

The British program of wage controls seems to me to have been doomed from the start. Depending as it does on imports for most of its food and raw materials, Britain is particularly vulnerable to the current strong inflationary trends in world markets. The determination of Mr. Heath's Conservative Government to expand Britain's productive capacity, whatever its merits, also contributed to the rising spiral of inflation.

Of far greater significance, however, was the Industrial Relations Act of 1971, a statute anathematized by British labor and by the Labor Party. In consequence of its enactment, the Trade Unions Congress and unions generally entered upon a program of complete noncooperation with the Government. This program embraced a broad spectrum of activities, including passive resistance to and boycotting of the National Industrial Relations Court, working to rule, refusal of overtime work, and overt industrial action. This meant that debate over stabilization policies was entirely preempted by the politics of confrontation; the tactics of organized labor, rather than being directed toward organizational survival and protection of working conditions and living standards in a period of severe wage restraint, were concentrated on bringing about the downfall of the Government. The program of watchful and limited accommodation to governmental stabilization policies adopted by American labor unions never really had a chance in Britain.

The result was, as everyone knows, that the Conservative Government was defeated, but only barely, in an election forced by a rising tide of work stoppages and strikes that became a daily reality in Britain. By contrast, in the United States, we have had relatively few political strikes, which I define as strikes over objectives that cannot be obtained simply through the negotiation of an agreement with one or more employers. If such strikes were to become common in this country, we might be forced to declare them illegal, as they are in Germany.

In conclusion, I agree with our principal speaker that the record of the United States under economic controls compares quite favorably with those of other countries, especially Britain. For this we have largely to thank the tradition of pragmatism that has characterized the American labor movement since the days of Gompers. It is a tradition of accommodating at least temporarily to conditions that cannot be changed, of bending with the wind, of making a virtue of necessity, and of seldom seeking open confrontation with government for purely political purposes. The policy of British unionism has been exactly the opposite, with consequences that are clearly apparent to everyone.

Comment*—

HAROLD W. DAVEY **

Perhaps the most useful guidepost for the assigned topic is our experience during World War II. It contains abundant examples of what we did right and what we did wrong, both in terms of policy and procedure. Some of the more positive elements include the following:

1. Wage-price mechanisms and rationing worked tolerably well because of an overwhelming management-union consensus between Pearl Harbor and V-J Day.

2. National War Labor Board procedures for dispute settlement were generally effective not only because of the unified objective of winning the war, but also, in great part, because of the ingenious use of tripartite machinery at all levels.

3. The war itself was as popular as any war can be. There was a general understanding on the part of organized labor, employers, and the lay public of the necessity of defeating Nazis and their allies.

I shall skip over the negative aspects.

We are considering the assigned topic during what is somewhat loosely termed a period of peace. However, our economy has excessive unemployment side by side with inflation proceeding currently at a 10.8-percent annual rate. The economy is also characterized by severe shortages in certain energy and product areas. The question thus naturally poses itself as to whether we need or

*What follows is stated with no prior knowledge of the principal paper by Dr. Arnold R. Weber.

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could mount a successful controlled and rationed economy under such conditions.

My basic reaction is negative. I do not believe we would be any more successful than other nations who have generally failed to implement national incomes policies in peacetime conditions. Our most recent "successes" in this area were Phase I (the 90-day freeze) which came too late, and Phase II which ended too soon. Much of our present difficulty can be traced to the abrupt, premature scrapping of Phase II by President Nixon. Today (April 1974) there is little sentiment in the business or labor community for a controlled and rationed economy. The psychology just doesn't seem to be right, even though there are many who do not believe it is time to jettison the COC and/or John Dunlop.

Assuming a controlled and rationed economy is to be instituted in a peacetime milieu, the following prerequisites appear to be essential for success:

1. Basic policies and procedures should be discussed with and agreed upon by top management and union leaders *in advance* and not presented as a *fait accompli*.

2. Administrative machinery should be tripartite.

3. Controls need to be applied not only to prices and wages but also to interest rates, dividends, and profits (translation: I share the AFL-CIO's principal objections to the Kennedy-Johnson wage-price guideposts of 1962 and 1966).

4. A mandatory characteristic of all policy measures must be *some* degree of flexibility. I do not mean chaos and uncertainty, nor do I mean an institutional freezing of inequities. I mean rational, meaningful flexibility rather than rigid formulas of 3.2 or 5.5 or whatever. Guideposts should guide rather than serve as straitjackets.

5. Finally, I suggest the imperative need for coordination at the top among those administering the various controls just mentioned and those concerned with appropriate monetary, fiscal, and budgetary policies. All must work together rather than at cross-purposes.

I prefer to see us develop enough imagination and know-how to avoid a controlled and rationed economy. The prospects, however, appear to be slim. Dismantling John Dunlop's agency will produce more inflation rather than less—more chaos and uncertainty rather than less. This need not be so. As a confirmed optimist, I have quarreled for years with the economists' dogma that one cannot have stable prices, full employment, and "free" collective bargaining (*i.e.*, unregulated) at the same time. I maintain on the contrary that one can have three out of three, plus a reasonable economic growth rate and stability in balance of payments, if we set our minds to the task and concentrate on dovetailing public policy with private policy.[1]

I will cite only two examples of what I have in mind, as follows: (1) an annual conference involving the CEA, OMB, the Joint Finance Committee, and top management and union leaders to seek a consensus on anti-inflationary goals for the coming bargaining year; (2) increased effort in the private sector to develop workable joint committees to increase productivity and reduce unit labor costs (without decreasing employment) as has been done, for example, between the major steel companies and the United Steelworkers of America.

This sort of voluntarism could eliminate partially, if not entirely, the need for governmental controls and rationing. At any time, however, there will be a pressing need for strong monetary and fiscal policies. As one with a reputation as a "liberable" economist, I will close by citing Milton Friedman with approval—something that I rarely do. I agree with Professor Friedman's aphorism, "Strong unions do not produce inflation; inflation produces strong unions."

Comment—

SIDNEY F. MCKENNA *

I have listened with great interest to all that has been said about the country's experience with the soon-to-be-dismantled machinery of the Pay Board and the Price Commission. I've given a good deal of thought in the last several weeks to what the impact of those agencies was on the Ford Motor Co. and its bargaining with the UAW. In general, I endorse Arnie Weber's com-

[1] Harold W. Davey, *Contemporary Collective Bargaining* (3d ed.; Englewood Cliffs, N.J.: Prentice-Hall, 1972), ch. 11.

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ment: The news about controls, as far as we're concerned, is that there was no news.

The fact is that we thought a great deal about the implications of the guidelines and controls for the outcome as we approached our 1973 bargaining. We concluded, based on the experience up to that point in time, that no amount of concern was going to change whatever deal we and the UAW finally arrived at, as long as it conformed with the pattern of settlements that had been approved elsewhere.

This is not to say that I agree with the contention that larger units—unions and managements—were advantaged under the rules and regulations and political realities that existed during the controlled period. While there may be some element of truth in that generalization, as far as wages are concerned, I'm sure there are a lot of people in the Ford Motor Co. who would seriously argue with it on the price side.

There are a couple of other things that have been said that I'd like to comment on. It seems to me that the control period, the 33 or 34 months, is behind us, and the impact, whatever it has been on bargaining, has been experienced. Now we will all reap the harvest in the next few months. And it's that harvest, it seems to me, that should be of concern to us—more so than an assessment of what's happened to us in the last two and a half years. I refer particularly to the pace of inflation that has been alluded to recently by Professor Davey.

We've had two controlled periods in this country since 1948—the Korean war controls and the period we're just coming out of—plus the guidelines during the Kennedy-Johnson years. Yet the facts of that whole 25 years of history are simply these: In the nonfarm sector of the economy, the compensation per man-hour has gone up at an annual compounded rate of 5.3 percent over the past 25 years. That happens to be almost exactly the sum of the rate of inflation over that period (which was 2.5 percent a year) and the measure of productivity during that period (which was 2.7 percent). That tells us something about what we might expect in the future.

One of the things that did come out of the control period was an increased strengthening and dependence upon escalation as a union answer—at least a partial union answer—to controls. But I have to take exception to the comment that in the aluminum, steel, and auto industries, the escalator clauses now recapture 100 percent of the increases in the Consumer Price Index. I can't speak for aluminum or steel, but that certainly is not true in the auto industry. Although we did rearrange the relationship between the movements in the Consumer Price Index and the pennies per hour that are generated by movements in that index, it is not that we bargained a one-for-one relationship *per se*. The UAW argued strongly all during the negotiations that there should be a 1-percent increase in wages for each 1-percent increase in the Consumer Price Index. And it trotted out all kinds of historical arguments based on our negotiations for 30 years that were supposed to support that notion. But the plain fact is that the new interval is a bargained number. The relationship has never been one-for-one, and it is not one-for-one today, although there is a somewhat larger measure of protection under the current agreement than there was under the agreement immediately preceding that.

Regardless of the degree of protection that escalators provide, I think there is a real concern about what we're going to be confronted with in a year or two if the present rate of inflation continues through another bargaining cycle. If it's a 10.8-percent rate this past quarter, and even if the 6- or 7-percent forecasts for the balance of this year are accurate, that still could leave this country with an annual rate of inflation of 8 or 9 percent on an average for 1974. Labor unions are not going to stand still—for many practical reasons—and see purchasing power eroded as a consequence of that inflation. Not only are they going to seek to protect themselves through escalators or prepayments in the general wage increase of one kind or another, they're also going to get out in front as far as they possibly can. And the cycle, if it goes another year or two, is going to take labor cost increases, which I've described as averaging in the range of 5½ percent over the past 25 years, and dramatically increase them. In my judgment, labor leaders—in a free economy and with free collective bargaining available—will conclude that they have no alternative except to attempt to protect the membership from the effects of inflation by insuring purchasing power, at least to the extent they can wrest that insurance from the employers. If such a picture in fact materializes, I believe that we face the risk of even more stringent controls than those that were put in place in 1971.

Consider what the 10-percent inflation so far this year has already done in our company. Since we signed our collective bargaining agreements last October, movement of the Consumer Price Index has added 20 cents an hour to our hourly labor costs. That's 20 cents more per hour of work for every hourly employee over and above what he got last October, simply because of the Consumer Price Index movement. Furthermore, the forecasts, based on what we know now, indicate that by the time the contract expires in September 1976, the 20 cents will go as high as 75 to 85 cents. And that excludes improvement factors increases, which are 3 percent annually.

You know a 3-percent improvement factor at one time was considered quite high, and it's still an acceptable level of wage increase. It's supposed to reflect general productivity improvements. But if you place on top of those 3-percent increases another 75 cents an hour because of inflation, and then consider that many present escalators do not provide 100-percent makeup, you can confidently project that cost of living will be a major union objective. This will be true not only for wages but, as has been suggested, for pensions as well. As you are aware, the recent settlements in steel and aluminum have started down that road of pension escalation.

There is no question that escalation is going to become a very prominent feature of collective bargaining to a much greater degree and on a much broader basis than ever before. The five million or so people who are currently covered by cost-of-living wage escalators may be only the beginning. The spread of these provisions is bound to be very dramatic and rapid in the next two to three years.

There are two or three other aspects of the subject of control that I would like to comment on. There has been a great deal of attention and time devoted to wage and price controls in the past two and a half years, but there are other elements—political developments and legislative developments—that I think we have to be concerned with. Although they're not thought of as direct controls, they have much the same kind of impact on collective bargaining as do direct controls. I have reference here to the developments in national health insurance; pension legislation; occupational safety and health laws; and even equal employment opportunity regulations, where there is sometimes an effort made to substitute different rules for the traditional seniority rules. All those legislative developments have to be integrated with collective bargaining in some fashion because they either supplement, substitute for, overlap, or duplicate arrangements made in the parties' agreements. These indirect controls are going to be one of the major challenges for bargainers in the years ahead. There has been more legislation of that kind acted upon or proposed in the past two years—and more of it is on the horizon—than we've had in any comparable period in our industrial history.

With respect to the allocation of resources and the energy crisis, I don't have to belabor the point that the automobile industry has been severely affected by the energy shortage, the gasoline shortage particularly. It has produced the greatest upheaval in manufacturing and product planning in our industry since at least World War II, if not ever. There have been some interesting developments to come out of that, not the least of them being substantial layoffs and short-time in some plants, and substantial overtime in other plants. Somebody asked me last night whatever happened to that much-touted issue of voluntary overtime in the auto industry—the issue that got so much visibility and was a key element in the bargaining. The questioner asked it as though voluntary overtime had disappeared and there was no problem. The facts may be a revelation to you.

Now everyone who reads the newspapers knows that the auto industry has a large number of unemployed; it's been estimated at 100,000 people on permanent or indefinite layoff. Thousands of others have been on short-time since late November. Despite that fact, we had a number of plants at Ford where the voluntary overtime provisions that were incorporated at last year's collective bargaining agreement have seriously crippled the production of the cars that are selling well—the small automobiles. And there is a certain irony in all of this to us in our relationship with the UAW, a factor that we have brought to the union's attention. (As you perhaps know, the UAW has sought voluntary import quotas on foreign cars for a temporary period on the basis that it would give the domestic industry time to turn around and bring new small cars to market.)

The fact of the matter is that while the UAW was asking for import quotas on small foreign cars, we've had problems getting UAW-represented employees to build our own small cars. At our

Kansas City assembly plant, for example, we've scheduled a half a dozen so-called voluntary Saturdays. (The plant makes Mavericks and Pintos, if you'll pardon the commercial.) And we haven't been able to get enough employees to work on those Saturdays to permit us to run production. The same thing is true in an assembly plant in New Jersey and to a lesser extent in Lorain, Ohio, and in Dearborn.

We were and continue to be somewhat mystified by this reaction in an economy that is widely accepted as being in a recession period, and in an industry that is considered by many as being in a recession period, by the unwillingness of people to come in on a Saturday to pick up a paycheck of $65 for a day's work. Now, on the other hand, we do have some plants where we are running some Saturdays on a voluntary basis.

I mention all this to you because there's a popular belief that the voluntary overtime issue somehow or other has evaporated and everybody is happy with the situation. I'd just like to leave you with the thought that collective bargaining produces a lot of strange results and anomalies. And the more ironic of those in our situation today is the short-time and layoffs occurring extensively in many plants of our company while we are, at the same time, experiencing an inability to run production in our other plants because we can't attract people in to work.

To conclude, I just want to reemphasize a point I made at the outset of my remarks: The inflation problem is the most serious threat facing labor-management relations today. And I generally concur with the comment of Professor Davey: I don't think unions seek to cause inflation; I think they react and respond to it. That, of course, doesn't go to the question of whether "indexation" is a bad thing or a good thing, or whether escalators are good or bad.

Comment—

FRANK POLLARA *

When I came here from Washington, I fully expected that, as far as this session was concerned, we would be talking about the pending termination of the Economic Stabilization Act. In fact, I

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was reasonably certain that as of midnight April 30, the law would be dead, and wage-price controls would be a thing of the past.

However, this morning at breakfast, staring me in the face on the front page of the newspaper was the headline, "Democratic Turn About. Extend Controls." And the story went on to say that a Democratic conference of senators had met and unanimously agreed to seek some form of extension of the Economic Stabilization Act. Whether that maneuver will be successful or not, I can't really say. I do say to you that it injects an element of uncertainty in so far as the future is concerned.

Now, while there may be some uncertainty as to whether there will be a continuation of some form of controls or the authority to impose controls after April 30, I will say to you that there is no uncertainty with respect to the position of the AFL-CIO as far as controls are concerned. So that there may be no ambiguity on this question, let me say at the outset that the federation views with undiluted joy the coming end of controls. To put it mildly, we have been less than enchanted with our experience under a government-sponsored system of economic controls.

From the beginning and going back to August 15, 1971, when the Nixon Administration launched its stabilization program with a 90-day freeze, we have been openly critical of various aspects of the controls program. Yet, as far back as 1966, the AFL-CIO expressed its willingness to cooperate with a government system of economic controls if the Government, in its wisdom, felt that economic controls were necessary and provided that such controls were fairly and equitably administered; that such controls were across the board and applied to all sectors of the economy; and last, that such controls called for equality of sacrifice from all segments of society.

We do not feel that the economic stabilization program, meandering through its various phases, has met this test. And we go a step further—it failed absolutely in its stated aim of curbing inflation.

Whether you're talking about freezes or whether you're talking about the rigidities and precise mathematical calculations of Phase II, or whether you're talking about the so-called voluntary aspects of Phase II½, III or IV, the stabilization program was fraught with inequities and inequalities. I would say to you that should perchance the act be extended and you have a Phase IV 1/8 or something of that sort, there will be a continuation of inequities in the administration of that program.

The truth of the matter is that controls have been effective in a one-sided way. They effectively held down wages, but allowed prices to escalate rapidly. We feel definitely that controls have not been as effective in the price area as they have been in the wage area.

Let's take a look at what happened to profits during this period of time. In 1971, they rose 21 percent; in 1972, 16 percent; and in 1973, 27 percent. In the first quarter of 1974, the upward climb in profits has continued. Some reports have already come in. *Newsweek*, in its April 29 issue, states: "By most standards the U. S. economy is slumping into a recession, but corporate profits for the first quarter have all the glow of an unrelenting boom."

Alcoa, in the first quarter of 1974, had profits that were 114.3 percent higher than the first quarter of 1973; Allied Chemical, 50 percent; American Can, 55.7 percent; International Paper, 38.8 percent; Reynolds Metals, 706.6 percent; and Safeway, a major food chain, 34.3 percent. And these higher profits resulted largely from higher prices. As prices rose, profit margins widened. While there was some increase in costs, the higher prices have been more than enough to compensate for the rise in costs.

We know what's happened to interest rates. Practically every other day, you read of another bank raising its prime interest rate another quarter of a point or an eighth of a point. The prime rate is now up to 10½ percent, and prospects are that it will continue to rise.

At the same time, the Consumer Price Index rose 10 percent over the 12 months ending in February, and over the three months ending in February, it has been going up at an annual rate of 12.1 percent. For the three months ending in March, the index has soared at an annual rate of 14.5 percent.

But the Wholesale Price Index is going up approximately twice as fast as the Consumer Price Index—19.1 percent over the 12-month period, and 24.8 percent over the three-month period on an annual rate. Taking into account the lag between rises in wholesale prices and their reflection in consumer prices, all I can see in the months ahead is the continuing escalation in consumer prices.

I would hesitate to say what one nationally known economist, in his private news letter, told his clients—that he would not be terribly surprised if by the end of 1974, retail prices were rising at an annual rate of 20 to 25 percent. Whether his fears will be realized or not, I leave that to the economists to say. But, knowing their track record in the past, you might listen to what they say and make your own judgment.

On the wage side, the picture has been somewhat different. There have been increases in wages. Whatever standard you use —the hourly index or average hourly earnings or major settlements—wage increases have hovered roughly around the 7-percent figure throughout this stabilization period.

But the real story of the worker's plight is best described by what has happened to net spendable weekly earnings during the stabilization period. In August 1971, weekly net spendable earnings for a family of four, based on 1967 prices, was $93.19. It rose for some months thereafter, as it should; then it started a downward trend that has continued for the past 15 or 18 months to the point where the most recent figure for net spendable earnings is $91.17—$2.00 less than it was 30 months ago in August 1971.

In itself, this is bad enough. But the worker's economic deterioration was even worse than reflected in the $2.00 decline. In a two and one-half year period, net spendable earnings should have increased to reflect gains in productivity. Taking productivity gains into account, net spendable earnings should have been up around $100.00 a week, $9.00 more than the actual figure. This is the real measure of the worker's loss.

Is it any wonder then that we feel sort of disenchanted with the entire concept of wage-price controls? Is it any wonder that we have a mounting distaste for any continuance of a stabilization program in any guise whatsoever? I have begun to think that some of these people who profess to believe in the free market system, but at the same time advocate some form of standby controls, actually only believe in half of a free market system. These people believe we should control wages because everybody knows that's what causes inflation, and if you control wages, you thereby control the movement of prices. And I think there are a number of people who philosophically believe that.

In Phases III and IV of the stabilization program, mandatory controls were retained in the food industry, the construction industry, and the health industry. The rest of the economy was under so-called voluntary controls.

In the food industry, the Cost of Living Council established a tripartite food wage committee which decided, or, to put it more accurately, made recommendations to the director of the Cost of Living Council for disposition of individual cases that came before it. In this committee, labor tried for months to get the industry members of that committee to join with us in a resolution to petition the director to put an end to controls in the food industry. And we did so with the knowledge that a report, prepared by the food advisory committee to the Cost of Living Council, stated flatly that controls had little or no impact on prices in the retail food industry. In fact, food retailers had not even raised prices up to the amounts allowed them under the regulations. At the same time, wages were being held back by the actions of the food wage committee. It is no wonder that food industry members thought they had a good thing going for them. Wages were under strict mandatory controls, while prices were basically unaffected by controls. This resulted in widening profit margins and reflected itself in sharply higher earnings for food industry companies.

Then there was the voluntary segment of Phases III and IV—a misnomer if I ever saw one. Technically, it was true that in the voluntary sector, the regulations did not constrain the parties from implementing wage increases of 7 percent or 9 percent or 19 percent. But the reality was something different.

In case after case, the union sits down with the employer, and the employer wraps the American flag around his shoulders, beats his chest, and says, "I'm a patriotic American. I have made my pledge to my government. I will keep wages down to 5½ percent." In fact, there were some companies who sat down and told union representatives, "We made an agreement with the government; we wrote them and we said we agreed to keep wages at 5½ percent."

While technically the program was voluntary, the mere existence of the program and the so-called voluntary 5.5-percent wage guideline exercised a very pervasive influence. The major impact of the stabilization program was to keep the level of wage settlements down. It succeeded. Make no mistake about that.

I very much doubt, as some of the other speakers indicated, that it restructured contract settlements by putting greater emphasis on fringe benefits than would otherwise have been the case. I do very definitely believe, however, that it held down the size of settlements and probably held them down substantially. I do also believe that it has led to an increase in agreements with cost-of-living clauses and agreements of shorter duration.