GOVERNMENT POLICIES, MARKET FORCES, AND COLLECTIVE BARGAINING

Address by

Lloyd Ulman, Director

Institute of Industrial Relations
University of California, Berkeley

at

Annual Industrial Relations Conference

San Francisco, California,

May 17, 1966

Presented by

Institute of Industrial Relations

UNIVERSITY OF CALIFORNIA, BERKELEY

Berkeley, 1966

Lloyd Ulman

(A. The Traditional Vices and Virtues)

To secure protection and support by the general community, any quasi-public institution like collective bargaining must not only possess an economically or politically strategic constituency; it must also be regarded as more of a social asset than a public nuisance. The nuisance value of strikes, exclusiveness, and cost increases sufficed to keep the social status of collective bargaining in doubt until the great depression of the 1930's threw the country into an unprecedentedly experimental frame of mind. Yet, long before collective bargaining received substantial public support, its proponents attributed certain important and socially beneficial effects to their institution:

First and foremost, collective bargaining was championed as an instrument for applying the concept of equal justice under a set of privately negotiated laws in a market place where forces of competition frequently afforded inadequate protection against oppression.

It was also claimed that, by putting pressure on costs, collective bargaining furnished an effective incentive to increased managerial efficiency. As such it could serve as a supplement to or a substitute for competition in an unregulated economy. It was also put forward as a superior substitute for antitrust policy, in that it could enable the community to cash in on the economic potential of large-scale enterprise (and thus avoid throwing out the big baby with the bathwater).

In addition, by enabling the economy's underdogs to help themselves, collective bargaining could claim support, at least in principle, as an alternative to paternalistic public policies. Economists, in assessing the effects of collective bargaining, invariably contrast it with a state of economic nature--and thus regard it as an alternative to a regime of competitive individualism. Viewed in the context of an already imperfect market system, however, collective bargaining might be regarded more usefully as an alternative to governmental intervention.

Finally, the indirect effects of collective bargaining on the economy were regarded by some as a beneficial countercyclical influence. By diverting cash from the idle rich and their idle corporate treasuries when private investment demand flags, the unions could increase spending by consumers and thus restore high levels of production, employment, and "purchasing power."

(B. The Portent of New Public Policies)

In the eye of the postwar public, these old institutional vices have been magnified, while the traditionally claimed virtues have been downgraded. This is hardly surprising, since promise tends to be more highly regarded than performance; it was not until after World War II that this country experienced the performance of a large-scale collective bargaining system, freed from the successive restraints of unemployment and of wartime controls. And where it found the performance disappointing, the American community was not reticent in imposing constraint. Constraint has been either explicit, in the form of legislated regulation of union behavior, or implicit, through the adoption of certain broad economic policies whose effectiveness allegedly depends on the modification of collective bargaining behavior.

(I. Legislated Regulation of Union Behavior)

"National emergency" strikes and jurisdictional disputes were obvious and early targets of intervention in the public interest. But no less in the public interest was subsequent legislation to the extent that such legislation was designed to eliminate or prevent: financially lax administration or undemocratic government of trade unions and discriminatory admissions on employment policies--for these hardly squared with the image of an institution whose claim to public protection rested largely on the extension of economic self-government to the low men on the economy's totem pole.

Naturally the parties most restricted have been the least appreciative of these postwar measures, especially since some arrangements now subject to regulation had long been left undisturbed. Moreover, there is truth in the assertion that a substantial portion of the thrust behind some of these measures was supplied not by the desire to reform but rather by the urge to maim or discredit.

Nevertheless, these reactions miss two important points. The first ignores the political alchemy of institutional growth and strength. When unions were relatively weak and their aggregate membership was small, they could reasonably claim the protection and advancement of their own members as among the most important benefits which collective bargaining conferred upon the community in general. But once the institution became widespread and once it succeeded in elevating the economic status of the expanded constituency, the most important social effect of some of the same devices might become the denial of opportunity to those remaining uncovered. The extension of collective bargaining, in helping to reduce the size of the underdog group (mainly by subtracting semi-skilled production workers), has also increased the proportion of nonunionists in the underdog total. Hence concern for the underdog increasingly becomes concern for the nonunionist.

In the second place, even if one grants that the intent of legislative restriction was at least partly nonaltruistic, it does not follow that the effect has been or will be pernicious. The fact is, of course, that the viability and efficiency of collective bargaining do not require autocratic union government, racial discrimination, or even jurisdictional strife. Moreover, abatement of these evils will enable collective bargaining better to realize its old promise as a superior instrument of social reform. Taft-Hartley, Welfare and Pension Plan Disclosure, Landrum-Griffin, and Civil Rights undoubtedly present a challenge to the bargainers on both sides of the table. But not a threat.

(II. Employment and Price Stabilization Policies)

1. Instead threats have come where none were intended--from public policies in the areas of employment and price stabilization--and they have emerged in part because the objectives of these policies are not easily squared with the stated objectives of institutional reform furthered by the various pieces of postwar regulatory legislation, to which I have just referred.
2. In fact, the two objectives of full employment and price stability are themselves mutually inconsistent in a modern economy. Yet in this postwar period each has received increased emphasis.
   (a) The goal of "maximum employment, production, and purchasing power" was formally adopted with the enactment of the Employment Act of 1946, in response to the vivid memories of the Thirties.
   (b) And price stability, although not memorialized in legislation, rose in status--both as a goal (after the inflation of 1946-48)

and later as an important instrument for achieving yet another national objective--equilibrium in the national balance of payments, which came to be adopted as an important facet of U. S. foreign policy.

3. Implementation of these employment and price policies has affected the status of collective bargaining in a number of ways.

(a) In the first place, the use of modern fiscal-monetary policies to increase total money demand in principle provides a more certain and efficient and a less costly way to reach full employment than do negotiated wage increases which rely upon the redistribution of income to increase purchasing power. For the latter entail cost--and probably some price increases. Thus the availability of Keynesian policies--at long last vindicated in this economically backward country by the tax cuts of 1963 and 1964--has robbed collective bargaining of some of its lustre as an anti-depression instrument--and, indeed, in the process, has pointed up its inflationary potential. Not that collective bargaining has been completely elbowed off the stage by the new generation of economists--(who bid fair to become the fifth estate)--but that the institution's potential for social good in the area of aggregate employment now varies inversely with the community's political will to employ fiscal-monetary policy to this end.

(b) On the other hand, sustained commitment to full employment probably enhances another social contribution of collective bargaining--its contribution to managerial efficiency and higher productivity. When unemployment is high, this contribution is offset by the propensity of unionists--especially at the level of the plant or local unit--to invest a greater part of their energies in clinging to inefficient working arrangements. But the maintenance of tight labor markets can reinforce such collective bargaining devices as seniority, grievance procedure, and severance pay in reducing the worker insecurity which probably accounts for most of the makework psychology. Meanwhile, pressure on costs from negotiated increases in compensation continues to furnish a powerful incentive to technological innovation and increased managerial efficiency.

In summary, then, wage increases won under collective bargaining are more likely to benefit the entire community when unemployment is high than when full employment is achieved and maintained. On the other hand, collective bargaining is more likely to exert a salutary influence on productive efficiency in a full employment economy than in a stagnant or depressed economy. The net effect of these two offsetting influences of full-employment fiscal policies is to enhance the social status of collective bargaining.

The same cannot be said for price stabilization policies. Prices are likely to begin rising before full employment and optimum utilization of plant capacity are reached. Such inflation may be fed from two sources (among others) in the labor markets of the economy--the emergence of labor bottlenecks under the pressure of increasing demand; and the increased power of unions to raise wages and of management in certain concentrated industries to raise prices. Both phenomena have become the targets of two rather distinct types of public policy--training programs, on the one hand, and the wage-price guideposts, on the other. Both types of policy affect collective bargaining.

(c) The guideposts are not intended to apply to wage or price increases attributable to shortages--by implication, even when shortages have been induced by prior restrictions on entry into the labor markets involved. However, for manpower training programs, which are relied on to overcome shortages, high-wage situations apparently created by institutionally induced restrictions are likely to prove particularly attractive targets. The reason is, of course, that some of these programs are designed to further policy objectives in the areas of poverty and racial discrimination as well as and even more than wage-price stability: thus equipping young unemployed Negroes with construction skills could serve various socially approved purposes at once. This poses an obvious threat to collective bargaining based on restriction of the supply of labor, which is found principally in some of the older and most well-entrenched craft jurisdictions--especially in construction. However, I do not believe that the impact of these policies on the style and effectiveness of collective bargaining in the crafts will be as great as some hope and others fear. Restriction of entry in craft occupations is, overall, quite limited and thus probably does not account for a major part of the bargaining power of the unions therein.*

*Some shortages of construction labor have been reported and more predicted, but in 4 of the past 5 years, the unemployment rate in construction has exceeded its postwar relationship with overall unemployment. (Observations for 1961, 1962, 1963, and 1965 lie above the 1948-60 regression line fitted in the study of the Joint Economic Committee, Higher Unemployment Rates, 1957-60: Structural Transformation or Inadequate Demand, p. 63.) Yet during the period 1961-65, the average annual increase in construction wages was 3.8 per cent (Annual Report, p. 85).

(d) Concern over the second type of inflation--what A. P. Lerner has well termed "sellers' inflation"--led the Council of Economic Advisers in the Kennedy Administration to accompany its program of expansionary fiscal policies with a set of (primarily) productivity guideposts for noninflationary wage and price behavior. These have occasioned considerable adverse comment by the parties, much of it ill-informed. I shall confine my own comments to certain questions of distributional equity and of enforcement which--regardless of the fate of the present policy--may prove to be troublesome to the institution of collective bargaining.

One of the touchiest problems is likely to arise in connection with cost-of-living increases: whether or not they should be allowed in addition to the appropriate trend productivity increase. Clearly such increases could be inflationary. Labor representatives, however, have argued on the grounds of distributional equity, pointing to language like the following sentence in this year's Annual Report (p. 90): "If prices of materials and other purchased inputs were unchanged, and the quantities used were expanded in proportion to output, then gross income of owners would rise in the same proportion as wage income. Thus, the division of income between labor and capital would remain unchanged." True enough, comes the reply, but suppose materials prices rose and with them the cost of living. That would not be labor's fault; moreover, the guideposts permit price increases in response to net increases in unit cost caused by rising materials prices (if profit margins are "significantly" impaired thereby). To my knowledge, the issue has never been joined explicitly by the Council, but their thinking is reflected in statements to the effect that past attempts to recapture cost-of-living increases did not alter the distribution of income and succeeded only in adding steam to an inflationary process. Nevertheless, the Auto Workers have long included escalator clauses as an integral element in their major long-term contracts--and protected them successfully during the Korean War period. Any attempt to formulate an explicit disallowance of the cost-of-living principle would involve a challenge to an established system of collective bargaining. (A British White Paper, however, did reject this principle, "in present circumstances.")

In providing that "prices should fall in those industries where the increase in productivity exceeds the national trend," the general guidepost for prices has posed an obvious problem of enforcement. It is easier to choke off threatened price increases than to obtain price cuts. Yet, since price increases are sanctioned in industries whose productivity trends fall below the national trend, absence of price declines elsewhere could imply overall price increases (and raise again the argument for extra wage increases).

Although prices have been rising relative to unit labor costs (which actually declined in manufacturing last year), the guideposts appear to have been more successful in restraining price-setters than in restraining wage-setters. The greater difficulty in securing wage restraint derives in part from the objectives and in part from the decentralized structure characteristic of the American trade union movement. While profit maximization offers industrial management many alternatives to raising prices, American unions live to bargain over wages and other elements in cost. They are more completely bargaining organisms than are European unions, and yet the latter--the Dutch, the British, and even the French and Italian unions--have been complaining that incomes policy leaves <u>them</u> functionless. As for decentralization in the American union movement, not only is the parent federation totally without power over its collective bargaining affiliates, but the power of the national unions over their constituent locals is often sharply circumscribed at least in certain substantive areas of bargaining and in certain industries where local bargaining over wages as well as other conditions prevails. The polar case is, of course, construction, where political as well as bargaining power most frequently resides at the local levels--which are most responsive to the rank-and-file membership. How seriously the construction problem should be taken depends in part on what one regards as the primary objective of wage-price policy, for rises in construction costs pose a more immediate problem for domestic price stability than for the balance of payments. However, to the extent that they may influence wage movements in export and import-substitute industries, they must be of some concern in the latter context as well as in the former.

Decentralization of bargaining power is not confined to construction. It has been a major concern even in industries where bargaining is conducted by national unions and in recent years has resulted in increased frequency of repudiations of initialed agreements and locally inspired strikes in many industries. Many of these disputes centered about production standards and work rules and, as suggested above, this source of unrest may yield to sustained full employment--which could be an important gain on the productivity side of the ledger. But the operation of the Landrum-Friffin law, making for more democratic political life in the unions, might have introduced a structural modification in American industrial relations, thus opposing a public policy goal in the area of union government with policy objectives related to price stability.

Now this potential conflict between the objectives of full employment, price stability, and free collective bargaining with democratically run trade unions does pose a potentially serious set of problems. Public exhortation and education might conceivably damp down pressures on wages and prices, but such education must ultimately be effective on the members of unions as well as on their agents and on business managers. Now the guideposts were designed to be just an educational device--a jawbone policy--and, as such, an alternative to controls. Yet the danger is that the mere promulgation of such a policy tends to commit the Administration to its success; and if success is uncertain or slow in coming--as it almost inevitably must be under the circumstances--the temptation is powerful to put teeth into the jawbone and to snap at a few trouser seats. Herein lies the most serious danger to collective bargaining: the implicit judgment that the principle of industrial self-government be compromised in favor of the requirements of price stability.

And beyond this lies yet a different peril: that the public will come to regard full employment as invariably associated with controls over private decisions concerning wages and prices, instead of being associated with a tendency of prices to creep upward over the long haul. I personally believe that we will come to regard the latter alternative as the lesser and indeed as a relatively minor evil. Other free countries, with far more vital stakes in foreign trade and capital movements, have certainly made this choice. We have learned sophistication in budgetary policies from some of them. There is one more lesson for us to learn.