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Inflation, Unemployment, and the Wagner Act: A Critical Reappraisal

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Note: Upper-case (UPPER-CASE) letters are used in place of italics.

The year 1985 marks the fiftieth birthday of the Wagner Act. It also marks a period in which the assumptions underlying the American system of union-management relations are being increasingly questioned by academics and practitioners. Since the Wagner Act (as amended) is the legal framework surrounding that system, it, too, has come in for critical scrutiny. This paper is a part of that critical appraisal.

In the text below the following arguments are presented. First, the Wagner Act is shown as a matter of historical fact to have been a piece of economic legislation, inspired by the economic challenge of its day: the Great Depression. Second, the economic assumption underlying the Wagner Act -- that pushing up wages would promote recovery from the Depression -- is shown to be based on questionable theory. Third, it is argued that whatever the merits of the Wagner Act's economic theory may have been in 1935, the approach is anachronistic and counterproductive in 1985 due to the post-World War II development of active, anti-inflation monetary policy.

Given these conclusions, the paper suggests an alternative to the wage system endorsed by the Wagner Act. It is argued that a more flexible approach to wage determination than was envisioned in 1935 is required to meet the national objectives of low inflation and low unemployment. Specifically, wider use of gain sharing (typically this means profit sharing) would provide the needed flexibility, create incentives to raise or preserve

employment, and improve the linkage between wage setting and anti-inflation policy. Such a gain sharing approach to wage setting is not in conflict with the Wagner Act's legal framework, but it is not supported by it either.

Especially after the Act was amended by Taft-Hartley, a tight demarcation between labor and management has infused the American industrial relations system. Union participation in managerial matters is not encouraged. This demarcation inhibits desirable change in the wage system, since widespread use of gain sharing carries with it a need for a less adversarial approach than is currently standard practice.

The paper concludes with suggested changes in public policy that would improve coordination of the labor relations system which has grown up under the Wagner/Taft-Hartley framework and macroeconomic policy.

I. The Wagner Act as Economic Legislation.

Nowadays, industrial relations textbooks and courses tend to picture the Wagner Act as primarily an effort to promote "industrial democracy" through collective bargaining. The discussion then turns quickly to the mechanics of the law, i.e., the NLRB, the various unfair labor practices, election procedures, etc. Viewed in that way, it seems almost unfair to ask about the Wagner Act's impact on macroeconomic performance any more than one would ask whether freedom of speech in the Bill of Rights has beneficial macroeconomic effects.

To some extent, this feeling -- at least on the part of individuals sympathetic to the Wagner Act -- reflects what Freeman and Medoff recently termed the two faces of unions. In their terminology, unions have a (nice) "voice" face involving the ability of the employee to redress workplace problems and a (less nice) "monopoly" or economic face involving pushing wages above market levels._1_/ There is a natural tendency on the part of those sympathetic to unions to emphasize the friendlier ("noneconomic") voice face.

i. The Economic Face of the Wagner Act.

In historical fact, the Wagner Act also had two faces, which correspond to those proposed by Freeman and Medoff. There was definitely an industrial democracy (voice) motivation in its passage. As Senator Wagner stated in 1937; "The right to bargain collectively is at the bottom of social justice for the worker... The denial or observance of this right means the difference between despotism and democracy."_2_/ But the Wagner Act was also a piece of economic legislation. Today the industrial democracy face is emphasized because the Act's economic face seems anachronistic at best.

The macroeconomic motivation behind the Wagner Act is clearly

stated in its preamble:

> "The inequality of bargaining power between employees... and employers burdens and affects the flow of commerce, and tends to aggravate recurrent business depressions, by depressing wage rates and the purchasing power of wage earners..."_3_/

So central is this economic theme that one searches the preamble in vain to find a corresponding justification based on industrial democracy. The only other justification provided is that the Act will lead to a reduction of strikes.

Is the statement in the preamble really proof that the Wagner Act was viewed originally as an instrument of economic policy? After all, Senator Wagner and Congress had to be concerned with convincing the Supreme Court that the law involved interstate commerce. The Act's predecessor, the National Industrial Recovery Act (NIRA), had been declared unconstitional only months before the Wagner Act was adopted. Perhaps the preamble -- with its reference to burdening the flow of commerce -- was simply a ploy to convince the Court that there existed Congressional authority to pass such a law. Such thinking probably was part of the motivation. But while the constitutionality issue may have been a contributing factor to the language, the history of the Wagner Act suggests that the preamble represented a then-popular theory of economic depressions.

As a legislative matter, there are antecedents to the economic theory stated in the Wagner Act. For example, the Norris-La

Guardia Act of 1932 contains the observation that "the individual unorganized worker is commonly helpless...to obtain acceptable terms and conditions of employment..."_4_/ Thus, the idea that in the absence of collective bargaining, wages might be "too" low was already in vogue by the early 1930s. And while the framers of the Norris-La Guardia Act did not explicitly make the connection to the Depression in their declaration of policy, such a connection was soon to be made.

The National Industrial Recovery Act of 1933 was constructed out of a variety of economic interests and theories. As Himmelberg documents, some of the motivation was a push from business interests for a relaxation of the antitrust laws. With the advent of the Great Depression, this motivation could be re-packaged as the enablement of "business planning" for recovery and economic stability. Others saw the NIRA as the beginning of national economic planning, i.e., planning by or through government. And still others, for example Labor Secretary Francis Perkins, saw the NIRA as a device to raise wages, worker purchasing power, and thereby economic output._5_/

Because of these mixed motivations, the NIRA's preamble is mainly a promise of promoting "cooperation" to bring about economic recovery. However, there is specific reference to increasing "the consumption of industrial and agricultural products by increasing purchasing power..."_6_/ The statute does not state WHOSE purchasing power was to be raised. However, upon

signing the NIRA, President Roosevelt indicated that while the wage increases promoted by the law would raise production costs, businesses should "give first consideration to the improvement of operating figures...to be expected from the rising purchasing power of the public."_7_/ Thus, the intent seemed to be to raise wages relative to prices, thereby raising real wages and purchasing power.

There are -- to be sure -- ambiguities concerning the economic theories underlying the early New Deal programs. The President's inaugural observation that "the only thing we have to fear is fear itself" reflected a conviction that building confidence was to be the key to ending the Depression. Presumably, however, business confidence would have been more buoyed by an increase in prices relative to wages rather than the reverse. Moreover, a consistent price inflationary theme ran through the early New Deal (although "reflation" was the preferred word).

At the most simple level, there was the uncontroverted fact that prices had fallen substantially since 1929. From 1929 to 1933, retail prices declined by 24%. This observation was apparently seen to imply that if prices could be raised back to 1929 levels, production would also rise to its 1929 peak. It is not clear that a differentiation was made between alternative means of raising prices. Reflation through NIRA cartel agreements on pricing or through fiddling with the dollar value of gold, was just as good as any other means. As Warren and Pearson, whose peculiar theories of gold and prices lay behind the President's gold policies, said, "Inflation results in unusual business activity. Deflation stops business."_8_/

The original version of the Wagner bill submitted as the "Labor Disputes Act" in March 1934 did not relate the proposed law to economic recovery in its preamble. Like the Norris-La Guardia Act it merely concentrated on the issue of equalizing "the balance of bargaining power."_9_/ However, Senator Wagner, in introducing the bill, stated that such balancing was "necessary to insure a wise distribution of wealth...to maintain a full flow of purchasing power, and to prevent recurrent recessions."_10_/ The NIRA, he indicated, was not having the desired effect in boosting real wages "upon which permanent prosperity must rest."_11_/ Indeed, he declared, failure to pass the Wagner bill would "jeopardize the whole recovery program."_12_/

Wagner's wage/purchasing power justification appears to have been widely accepted. It was noted (correctly) that the upward pressure on wages induced by the NIRA had been offset by comparable price boosts._13_/ The Wagner bill, however, would tilt the bias toward wages more successfully than the NIRA had, according to the bill's proponents. Not surprisingly, the wage/purchasing power theory was supported by organized labor; it was (and to some extent remains) a traditional labor movement justification for raising wages._14_/ To the extent the justification was criticized, the criticisms came from employers.

Employers who testified on the Wagner bill made various counterarguments. It was argued that the justification based on balancing labor versus management falsely presupposed a "fundamental theory of class antagonism"; that since U.S. wages were already higher than those in countries where unions were more prevalent, it was evident that unions could not raise wages further; and that Congress should stimulate investment rather than consumption._15_/ These protests were to no avail, however. By February 1935, the full exposition of the wage/purchasing power theory had entered the proposed bill's preamble. The Wagner Act was to be an exercise in improving macroeconomic performance by creating micro-level conditions conducive to wage raising.

ii. External Views of the Wage/Purchasing Power Theory.

Although the Wagner theory did not seem particularly controversial in Congress, the view that pushing up wages would stimulate output and employment was by no means uniformly accepted in the academic community. Economist Edward Mason of Harvard wrote of the "crudity of the errors" of NIRA administrators who believed in recovery via wage increases._16_/ However, empirically oriented economists -- as opposed to the theoreticians -- were more receptive to the NIRA view. A Brookings study published in 1936 -- while conceding that contemporary economists were split on the wage theory -- cautiously indicated that "expansion of purchasing power among the masses is a primary essential to sustained prosperity..." On the other hand, the book argued, boosting real wages would not ensure "PERMANENT prosperity." (Italics added)_17_/

Actually, what strikes the modern reader most is the general absence of economic data as a background to these discussions. It was widely accepted that there had been a build up of profits in the late 1920s and that this had led to a decline in consumption. Information available now (but not necessarily readily obtained then) indicates that while there was a profit expansion, real consumption also rose steadily in the 1920s._18_/ Moreover, from 1929 to 1933, real investment fell by absolutely as much as real consumption although investment accounted for only 18% of real GNP in 1929 while consumption accounted for 68%._19_/ In a world in which unemployment -- the key problem facing the country in the 1930s -- went largely unmeasured, it is hardly surprising that the debate on the wage/purchasing power theory entailed little empirical support. Debators were free to indulge their prejudices without fear of contradiction by statistical analysis.

The role that monetary policy might have played in causing or exacerbating the Depression, or in engineering a recovery from it, was largely neglected. Lauchlin Currie, writing in 1934, did put the blame on misguided Federal Reserve policies single-mindedly aimed at limiting "speculation" in the late 1920s._20_/ His analysis foreshadowed the later conclusions of Friedman and Schwartz in the 1960s and -- more recently -- Field in the 1980s._21_/ But at the time, Currie was the exception. Classical

economists argued that the problem was that wages were too high; labor-oriented economists such as Paul H. Douglas endorsed the wage/purchasing power theory and argued that the Depression had resulted from wages being too low._22_/

iii. The Postwar View.

When the Taft-Hartley bill -- with its substantial amendments to the Wagner Act -- was being debated after World War II, the issue of changing the Wagner preamble arose. The impetus for Taft-Hartley arose out of the postwar wave of strikes, and the strike issue was much more the center of the debate than the economic impact of collective bargaining. But economic issues were discussed, although the tenor of the discussions were very different than in 1934-35.

The original Hartley bill would have banned industry-wide bargaining, partly on the theory that such bargaining was inflationary because it pushed up wage costs. As part of this effort, the old Wagner preamble language dealing with wages and business depressions was deleted from Hartley's proposal._23_/ Wage boosts were seen as a Bad Thing and those favoring banning industry-wide bargaining now had a new Brookings book to support their views._24_/

However, OPPONENTS of the bill did cite the old Wagner theory as part of their rationale. A ban on industry-wide bargaining would, they argued, lead to an inequality of bargaining power (with labor at the disadvantage) and -- possibly -- to depression._25_/ Senator Taft generally acted as a moderate relative to Congressman Hartley in the House; his bill retained the basic wage/purchasing power theory of the old Wagner Act and did not ban industry-wide bargaining._26_/

Nonetheless, Taft's motivation appeared to be based less on macroeconomic models than on the conservative approach of making as few changes as possible to accomplish his objectives. The preamble's theory of wages and purchasing power had no legal significance, so why change it? Taft's statements gave no indication whether he personally subscribed to the theory.

Despite retention of the wage/purchasing power language, opponents of Taft-Hartley continued to raise the specter of renewed depression in the final stages of the Congressional debate._27_/ Their arguments did not prevent initial passage, however, nor the later Congressional override of President Truman's veto.

II. Why the Change in Economic Thinking?

Various reasons might be suggested for the shift in Congress away from the view that the Wagner Act was an anti-depression measure. First, there was no depression when Taft-Hartley was passed, despite many predictions that one would occur after the

end of World War II. Lack of depression naturally eroded interest in anti-depression measures. Second, inflation was seen to be the major problem in the War's aftermath. After relative price stability fostered by elaborate federal wage/price controls, retail prices rose by 8.5% in 1946 and over 14% in 1947. Unions -- freed from wage restraints -- negotiated large, pattern settlements and were viewed as part of the inflation problem.

Apart from the immediate economic background, there were changes occurring in the way macroeconomic policy was conceived. The Wagner Act's economic rationale -- that pushing up wages would boost consumption and economic activity -- is really a pre-Keynesian notion. The essence of postwar Keynesianism was that government had the major role in economic stabilization -- not unions or businesses. Government was to undertake this responsibility through appropriate macroeconomic policies (the Keynesians emphasized fiscal policy), and not by fiddling with prices or wages directly.

At the time the Wagner Act was passed, Keynes' GENERAL THEORY had not yet been published, and Keynesian ideas were just beginning to circulate._28_/ Despite the temptation to view New Deal fiscal policies as "Keynesian", the evidence suggests that Roosevelt himself was not much impressed with what he understood of Keynes._29_/ During World War II, however, Keynes' ideas seeped across the Atlantic. For example, the chairman of the National War Labor Board, George Taylor, argued that the Board's anti-inflation role should not be viewed as limiting worker purchasing power. To the extent that purchasing power needed limitation, he said, that role should be played by fiscal policy, i.e., tax increases._30_/

After World War II, Keynesianism had become a well-developed "school" of thought in the U.S. American Keynesians would not have viewed wage cuts as the answer to depression; indeed, they pooh-poohed the wage-cutting solution of the classical economists. But they also would not have seen wage increases as the answer to depression. To a Keynesian, the Wagner approach to economic stabilization would have seemed antiquated.

Congress was not converted to Keynesianism after the War. But it was influenced by the new doctrines. While not willing to commit itself to the FULL Employment Act proposed by the Keynesians, Congress did pass the Employment Act of 1946, establishing a Council of Economic Advisors in the President's office, providing for the preparation of economic reports, and creating a joint (House-Senate) committee to analyze economic trends._31_/ Such measures did not preclude simultaneous support for the wage/purchasing power theory. Indeed, Senator Wagner was one of the supporters of the original Full Employment measure. But Keynesian thinking tended to shift the emphasis away from wages and collective bargaining as a tool of macroeconomic policy.

III. How Good Was the Wagner Theory?

Since the wage/purchasing power theory was never rigorously stated, critiquing it is made complicated. A critic can always be called up for missing a subtle point, setting up a "straw man," etc. But the reverse criticism can also be made, namely that economic policy was made in the 1930s without a clear cut model of economic relationships.

i. Modeling the Wage/Purchasing Power Theory.

The essence of the wage/purchasing model is simple. Labor's real share of national income can be defined as the nominal wage (W) times the amount of labor input (L) divided by a price index (P). If it is assumed that workers have a positive marginal propensity to consume out of their wage income, then anything which raises labor's real wage share should also raise real consumption. As consumption rises, the output needed to supply that consumption must also rise and -- in turn -- the amount of labor employed should also increase. All elements of the model appear to be reinforcing the positive employment effect of the wage increase._32_/

The difficulty with this model is that it omits reference to pricing and production for other than consumption goods. Note that labor's share is expressed in real terms, i.e., WL/P. If P rises due to the jump in labor costs, the positive impact of a nominal wage increase will tend to be offset. Also, if increasing the share of labor in national income squeezes the nonwage (profit) share, there could be negative effects on investment. An augmented model of the wage/purchasing power theory must account for these pricing and investment relationships. Such a model is substantially more complicated than the simple view represented in the Wagner Act's preamble.

Would a model augmented to take account of pricing and investment relations produce a positive employment impact following a nominal wage boost? The answer is, unfortunately, "it depends." Unconstrained by other considerations, such a model might well suggest that wage boosts would be offset by price boosts on the basis of a simple mark-up theory of pricing. Indeed, under the NIRA (1933-35) wages and prices rose at parallel rates, leaving the real wage unchanged. This lack of real wage growth coincided with a lack of productivity improvement. After passage of the Wagner Act -- and before World War II began to affect output (1935-40) -- real wages rose at about a 2% per annum rate, roughly paralleling the growth of productivity. In short, pricing during the post-1933 period seemed to be based on a mark up over unit labor costs._33_/ Real wages rose when productivity rose and failed to rise when productivity was flat.

Given this mark-up behavior, it is difficult to put much faith in a wage-led recovery story. Indeed, about half the real wage increase after 1935 occurred during 1935-37, a period which ended in a recession. These observations do not prove that the wage boosts did not have a net positive effect. One might argue that

without union pressure, real wages might not have "captured" the productivity improvement, consumption might therefore have been depressed, and the economy might have slipped backward even after 1937. It's just that these conclusions do not leap out from the data.

Perhaps a greater cause for skepticism is the omission -- even in the augmented model -- of a financial/monetary sector. If wage boosts led to price boosts -- even price boosts that were insufficient to prevent real wage growth -- the real value of the money supply would be decreased. Such a development could lead to increased real interest rates and a decrease in investment and other economic activity. Again, it cannot be stated with absolute assurance that a wage increase must lead to decreased output and employment, even with a monetary effect included. Nevertheless, adding a monetary constraint does suggest that unless the monetary authorities accommodate the resulting inflation, real output and employment are likely to be retarded.

As a limited experiment, the outcome of a sudden boost in wages can be analyzed using a contemporary multi-equation econometric model. The results of such an experiment do not necessarily provide an accurate prediction of what would happen in the real world. Such models have built in assumptions which may or may not be valid. Nevertheless, use of such a model at least will illustrate the modern consensus view of economists concerning the results of a sudden burst of wage pushiness.

One such model is the DRI annual scenario model which contains 191 equations centering around the national income accounts and other commonly forecasted variables such as unemployment and inflation. The model was asked to simulate the effects of a 10% increase in wage pushiness in 1985._34_/ Since wage increases feed into prices and back into wages in the model, the immediate effect is an increase in wages by a little over 11% above what would otherwise have been predicted. Inflation -- measured by the GNP deflator -- is kicked up by about 6-1/2 percentage points. Real consumption expenditures rise slightly but overall real GNP declines by about 0.7% in the first year. This drop is due to a decrease in real investment triggered by falling real profits and rising interest rates. Unemployment tends to rise, partly due to the employment drop and partly because the model assumes higher real wages attract a greater supply of job seekers.

As noted, none of this disproves the Wagner Act's wage/purchasing power theory. Indeed, although most economic indicators in the model continue to deteriorate after the initial shock, some do not._35_/ However, the most dramatic effect is a burst of inflation from the cost-push pressures of the initial wage shock. Such a result would undoubtedly goad the monetary authorities into taking restrictive (demand-depressing) measures. Thus, the question arises as to whether the Act's economic assumptions should be uncritically accepted, given the admittedly limited evidence available. More importantly, with the greater willingness to use macroeconomic policy (especially monetary

policy) in pursuit of economic objectives in 1985 as opposed to 1935, should the view that wage boosts are inevitably beneficial be the assumption underlying national labor relations policy? The answer must be "no."

ii. Interaction with Monetary Policy.

In the modern world, the monetary authority (the Federal Reserve in the U.S. case) can not be viewed as a merely passive reactor to wage trends. Monetary policy is used actively to regulate economic activity and -- especially -- to restrain inflation. One can debate the wisdom or effectiveness with which such policies are pursued, but the fact that they ARE pursued is undeniable. Thus, a full model of the impact of wage increases on economic activity must take account of the responses of monetary policy to wage inflation.

The period of the late 1970s and early 1980s is particularly suited to illustrate this interaction. During the late 1970s, price and wage inflation accelerated as the economy expanded after the severe recession of the mid-1970s. This acceleration was exacerbated by political turmoil in Iran, the fall of the Shah, and the resultant OPEC oil prices increases which hit the U.S. economy in 1979 and 1980.

During the expansion of the late 1970s, discussion at the Federal Reserve's Open Market Committee -- the committee which sets monetary policy -- began to focus on wage developments. At a meeting in August 1977, concern was expressed in the minutes of the Committee "that businesses did not appear to be pressing as actively as they might to hold down labor costs, fearing the impact of strikes and assuming that inflation would continue."_36_/ In February 1978, minutes of the Committee indicate that some members believed that wage increases were abnormally large, given underlying economic conditions._37_/ By April of that year, the Committee expressed fears that the wage settlement in coal -- following a well-publicized strike -- could cause accelerating wage inflation if it "were viewed as a pattern-setter."_38_/ And at its July 1978 meeting, the Committee looked ahead to the 1979 bargaining round with trepidation, fearing that "strong pressures for large increases in wages would tend to spread throughout the economy."_39_/

Also during the late 1970s, the Federal Reserve began to articulate an inflation expectations theory which was then circulating among many policy oriented economists. Essentially it was argued that a period of prolonged inflation results in the expectation of further inflation. These expectations are reinforcers of inflation; they lead to programmed increases in wages and prices designed to "keep up" with price and cost trends. Such expectations-generated increases can be found in long-term contracts, the most prominent of which occur in the collective bargaining sector where agreements typically run 2 to 3 years. Closely linked to the expectations approach was the proposition

that the U.S. economy was prone to the establishment of a self-perpetuating wage-price spiral.

The expectations theory was stated repeatedly by members of the Federal Reserve Board of Governors in the late 1970s and early 1980s. Member Henry Wallich and Chairman Paul Volcker were especially vocal concerning the expectations approach. Thus:

"...rapid acceleration in costs, being transmitted to prices, often leads to further acceleration of costs, including wage demands. Throughout the 1970s this cycle of wage and price increases has been curtailed only briefly by downturns in activity, only to worsen again when the economy heated up."

Henry Wallich in Feb. 1979_40_/

"...over the years, labor and product markets have developed an increasing sensitivity to inflation. Expectations about inflation are an important factor in wage bargaining, in price setting for many goods and services, and certainly in interest rates."

Paul A. Volcker in Sept. 1979_41_/

Beginning in 1979, monetary policy turned increasingly restrictionist for anti-inflation reasons. As the economy slowed and slipped into recession, the Federal Reserve watched the labor market for signs that inflationary expectations were being lowered.

"We are now in the process of seeing the inflation rate...drop to or even below what can be thought of as the underlying or core rate of inflation of 9 to 10 percent. That core rate is roughly determined by trends in wages and productivity. We can take some satisfaction in the observed drop of inflation and in the dampening of inflationary expectations. ...We now need to make progress in improving productivity or reducing underlying cost and wage trends..."

Paul A. Volcker in July 1980_42_/

Despite the economic slump, the Federal Reserve Board wanted to be sure that it had cracked the wage-price spiral. Until it was clear that substantial progress had been made, the Fed was unwilling to let an ongoing recovery take place.

"The deeply entrenched underlying rate of inflation is sustained by the interaction of labor costs, productivity, and prices. So far, only small and inconclusive signs of a moderation in wage pressures have appeared."

Paul A. Volcker in July 1981_43_/

"...sustaining (anti-inflation) progress will need to be reflected in moderation in the growth of NOMINAL wages. The general indexes of worker compensation still show relatively little improvement... Major tests of the changing climate still lie ahead; 1982 is a particularly important year for wage bargaining."

Paul A. Volcker in Jan. 1982_44_/

As concession bargaining in the union sector became more obvious, the Federal Reserve adopted a cautious optimism concerning its anti-inflation efforts.

"What seems to me...important for the longer run is that the trend of underlying costs and nominal wages has begun to move lower, and that trend should be sustainable as the economy recovers upward momentum."

Paul A. Volcker in July 1982_45_/

"Yes, we have broken the inflationary momentum -- but continuing vigilance...will be essential... As part of this disinflationary process, growth in worker compensation in NOMINAL terms has declined to the area of 6 to 7 percent..."

Paul A. Volcker in Nov. 1982_46_/

"Bargaining practices and attitudes -- built up during a period of accelerating inflation -- change only slowly, but surely success will fundamentally be dependent upon a sense that the financial environment will remain conducive to progress against inflation. The implications for both monetary and fiscal policy seem clear to me."

Paul A. Volcker in Jan. 1983_47_/

"The upward trend of nominal wages and salaries slowed noticeably last year, with average wages rising about 6 percent... Longer-term union agreements negotiated in earlier, more inflationary years are expiring, tending to further moderate the wage trend."

Paul A. Volcker in Feb. 1983_48_/

"The pressures of recession, deregulation of some important industries, and import competition have all contributed to a greater sense of discipline and realism in pricing and wage bargaining. But we cannot...claim success against inflation until we combine greater price stability with prosperity over and extended period."

Paul A. Volcker in Feb. 1984_49_/

It is clear from these statements that the Federal Reserve embarked on a new course after 1979 which made wage push, or even wage catch up, a hazardous practice for collective bargainers. There was some dispute among economists as to whether an announced change in monetary policy toward a strict anti-inflation stance would itself contribute to reduced inflationary pressure._50_/ Some thought that use of incomes policy, e.g., wage-price guidelines, social accords, and similar devices, could supplement an anti-inflationary monetary policy and make the disinflation adjustment less painful.

In the end, however, brute force -- two back-to-back recessions in the early 1980s -- was the main vehicle of adjustment. The cost was high -- unemployment reached levels in excess of 10% in 1982. But inflation ultimately dropped substantially.

There is a lesson to be learned from the painful disinflation of the early 1980s. It is that a wage-oriented role for unions as envisioned in the Wagner Act risks putting organized labor on a collision course with the monetary authorities. Given the strong public sentiment against permitting inflation to go unchecked, it is labor which suffers from such a collision.

IV. The Narrow Scope of Bargaining.

According to the Wagner Act, unions are supposed to bargain about "wages, hours, or other working conditions."_51_/ The first two items directly affect costs since wage rates are expenses of the firm and reductions in hours -- with no change in pay -- raise the effective wage. "Working conditions" is a vaguer phrase; almost anything remotely related to the workplace affects working conditions. But the framers of the original Wagner Act probably did not have an expansive definition in mind.

In particular, some of the more novel consultative and participative arrangements which have developed in recent years -- and which will be shown below to have macroeconomic relevance -- were probably not contemplated. The framers of the Wagner Act -- and especially Senator Wagner -- were anxious to do away with employer-dominated "company unions" which had proliferated under

the NIRA. Employers painted these representation plans as progressive practices, but Senator Wagner viewed them as sham organizations._52_/ The message was quite clear; unions should concentrate on improving pay and closely related conditions; such improvements would contributed to economic recovery. Other areas -- such as those allegedly dealt with by company unions -- were of little interest in 1935.

Evidence from the period suggests that Senator Wagner and his colleagues had good reason to be skeptical about then-existing company unions and representation plans._53_/ By banning such arrangements, however, they moved the U.S. along a path different from other countries in which employer-sponsored consultation mechanisms are required by law, e.g., the works councils found in some European countries. Since wage-centered unionism was to be the centerpiece of American labor relations policy, topics other than narrow workplace issues were implicitly taken off the table.

At the time, this mindset was also characteristic of those employers who found themselves forced to deal with unions. To the extent that unions sought to widen the scope of bargaining, management was likely to resist. This attitude became especially apparent during World War II. Leaders in certain CIO unions saw the war effort, and the resulting emphasis on output and cooperation, as a chance to widen the scope of bargaining to include more traditional management perogatives. Plans were put forward for joint production committees amidst rhetoric emphasizing the common interests of labor and management._54_/ But the management community saw these proposals as potential intrusions into areas which were heretofore considered off limits for labor. Wartime concessions might lead to postwar loss of control of the enterprise and were therefore to be resisted.

Management could point to the Wagner Act's seemingly-narrow definition of bargaining scope to defend its traditional perogatives. But the vagueness of the Wagner Act with regard to scope was a problem. In the view of the management community, changes were needed to avoid a widening of that scope by the NLRB and the courts. Ultimately, the issue centered heavily on defining who was a supervisor.

In an adversary, wage-bargaining relationship, top management has to be able to rely on its lieutenants. Thus, the NLRB's waffling attitude on whether foremen could be unionized infuriated the management community. Foremen were viewed as management's front line and unionization of foremen was seen as encouraging traiterous behavior. As a result, Taft-Hartley carefully incorporated a definition of supervisory employee in order to keep such employees out of bargaining units._55 / The original Hartley bill would have gone further and explicitly defined the scope of bargaining in narrow terms, omitting even modern health and welfare benefits._56_/ But while Congress ultimately rejected Hartley's position, the management community mainly succeeded in its objective of keeping the postwar scope of bargaining -- as

actually practiced -- within the area of immediate workplace concerns.

With hindsight, it is easy to criticize the management position. But it must be recalled that even with regard to traditional workplace issues, unions in the 1940s were not always models of reasonable behavior. The rush of workers into unions in the 1930s and 1940s meant that novices often represented the union side at the bargaining table. Various political factions strove for control of the new unions, adding to the potential for labor-management friction. Finally, the wave of strikes following World War II galvanized the management community to assert its authority over the workplace._57_/ Not only was legislative action needed, as seen from the management vantage point, but also a firm posture of retaining management's rights in labor negotiations._58_/

Indeed, with hindsight, one can just as easily ask why labor did not recognize the damage it was doing to its long-range interests during the strike wave of 1946. In that year, Congress passed the Case bill, a foreshadow of Taft-Hartley, which failed to become law only because of a Presidential veto. Perhaps the reason for labor's failure to see future consequences lies in the decentralized structure of American unions. Such a structure always poses a problem for the labor movement in confronting global issues. No one union is large enough to "internalize" the effects of its behavior on the movement as a whole. And prior to the AFL-CIO merger, the existence of two rival federations simply exacerbated this dilemma. Whether that is the whole answer to what happened, or whether some leaders were just shortsighted, remains an open question.

While historians can be left to wrestle with that issue, the crucial fact is that wage-oriented unionism -- endorsed by the original Wagner Act -- was solidified by Taft-Hartley and by the management reaction to labor unrest. Participation by unions outside the traditional areas of workplace concerns was not encouraged. Unions were not supposed to involve themselves in managerial decisions nor worry about the firm's economic condition. The narrow scope of bargaining that arose in the 1940s means that today, new approaches to wage setting are hindered. In particular, the concept of gain sharing -- discussed in Section VI below -- is made more difficult for unions and managements to accept, since it inevitably raises issues of a wider form of union participation in management.

V. Implications of Postwar Developments for Unions.

The passage of Taft-Hartley and the management policy of containment, coincided with the ending of growth in the unionization rate, i.e., the proportion of the workforce unionized. After the Korean War, the unionization rate tended to trend downwards -- gradually during the 1960s -- more rapidly in the late 1970s, and drastically during the early 1980s. Drawing

causal relations is always risky, but there are some common themes running through these periods._59_/

As already noted, the postwar strike wave in 1946 was a major factor in the passage of Taft-Hartley. Wage pressures seemed to galvanize management into counteraction. The period after the Korean War was characterized by a widening of the union/nonunion wage differential and breakthroughs in certain benefit areas, notably supplemental unemployment benefit plans._60_/ By the end of the 1950s, another piece of union-opposed legislation had passed: the Landrum-Griffin Act. At the same time, an upward trend in employer unfair labor practices and workers ordered reinstated by the NLRB developed._61_/ As in the 1940s, developments at the workplace and in bargaining seemed to trigger a management reaction.

The upward trend in employer unfair labor practices and worker reinstatement orders accelerated around 1970. This acceleration followed a period in the late 1960s in which strike activity notably accelerated, contract rejections seemed to become more common, and the union/nonunion wage differential again widened._62_/ As had happened before, workplace problems and bargaining developments seemed to have wider implications than just the immediate settlements produced. Rather managerial attitudes toughened; nonunion firms became more resistant to unionization efforts, while organized firms sought ways to avoid unionization at new locations.

Finally, in the 1970s the process repeated. Union/nonunion wage differentials widened, supporting management impressions that unions were worth avoiding._63_/ An attempt by organized labor to counter management's union-avoidance tactics by amending the Wagner/Taft-Hartley framework was defeated by management pressure in 1978. Substantial declines in union membership followed in the early 1980s, declines far larger than can be explained by hard times in older "smokestack" industries._64_/

Unions found themselves, in short, in a "catch-22" situation. The management thrust in the 1940s was to keep unions focused on wages and related workplace issues and away from matters management considered its own perogative. Unions acquiesed and focused on those wage and benefit issues to which they had been assigned. The more successfully they did so, the more they galvanized management resistance and fostered their own decline. Short run success meant long term failure.

VI. Implications of Postwar Developments for Macroeconomics.

If the postwar channeling of labor's attention into wage-centered issues was not healthy in the long term for unions as institutions, what impact did it have on the economy as a whole? Usually, this question is phrased something like "Are unions inflationary?" Do they push up wages and cause prices to rise? Interesting as that question sounds, it is misleading. It takes attention away from the true dilemma of macroeconomic

policy.

Since unions represent a minority of the workforce, and always have, it is evident that they cannot be the sole source of inflation. Most wage decisions are made in nonunion settings. Thus, even if inflation is attributed to wage developments -- a questionable proposition in most periods -- the blame would have to be placed for the most part on nonunion employers.

The key periods of postwar inflation are the late 1940s, the late 1960s, and the mid-to-late 1970s. It is difficult to put the blame for inflation on wages in these periods. In the late 1940s, the key factor was pent-up demand, promoted by monetary expansion and military spending during World War II, and only temporarily contained by wartime wage/price controls. The story in the late 1960s also centered around monetary and fiscal expansion, this time related to the Vietnam War and development of social programs under the Great Society. Finally, the 1970s included two OPEC oil price shocks, dollar devaluation, and stimulation from macroeconomic policy. Different economists will put different weights on these factors and will prefer to tell the story in accord with their theoretical priors. But the basic message -- that wages (union or otherwise) were not the basic sources of these inflations -- will not be widely debated.

In any case, as noted above, the question of whether unions cause inflation is misleading. The more important question is whether the interaction of the wage determination system, of which unions are an important part, with anti-inflation macroeconomic policy leads to difficulty in HALTING the inflation process. Continuation of inflation, not the initial cause of inflation, is the key issue.

Below it is argued that there is a problem in the interaction between monetary policy and wage determination, that wage setting practices make inflation restraint an unnecessarily painful process, and that unions COULD play a role in improving macroeconomic performance. Doing so would lead them away from the wage-centered system imbedded in the Wagner/Taft-Hartley framework, a system whose long term characteristics have already been seen to contribute to the institutional crisis now facing the labor movement.

i. The Current Wage System.

Wage setting today consists primarily of establishing a NOMINAL wage rate (a wage expressed in dollar terms) based on a period of time (an hour, week, month, or year) or -- in some cases -- based on a certain amount of work accomplished (a piece rate). In the union sector, this nominal wage is often given some protection against inflation through a cost of living adjustment clause (COLA clause). And periodic wage adjustments are usually provided during the contract's life. In the nonunion sector, COLA clauses are quite rare but wage decisions are made as frequently

as management desires (often annually) and so can reflect inflation if management wishes to have it reflected.

The current wage system would not seem foreign to Senator Wagner, were he alive. He would be impressed by COLA clauses and long term contracts in the union sector. These features were known, but much less common, in the 1930s._65_/ And he would undoubtedly be surprised by the expansion of fringe benefits. However, he would be quite at home with one basic element: a wage is chosen -- either unilaterally by management or through collective bargaining -- and remains in place for some time. During that period, management assesses business conditions and determines how many workers to hire at that wage. That is, the main short run response to changes in economic conditions is made by management through layoffs and new hires.

It is this mode of response which is at the root of the modern macroeconomic dilemma. Typically, economic downturns since the end of World War II have been deliberately "engineered" to restrain inflation. However, the main impact of an engineered demand restriction (say, a "tight" monetary policy) is primarily a decrease in production and employment and only secondarily a decrease in inflation. The wage is set by a variety of criteria -- keeping up with other employers, catching up with past inflation -- but is not closely linked with demand conditions facing the employer. If demand is kept depressed enough for a sufficiently long period -- as the experience of the early 1980s well demonstrated -- inflationary pressures will eventually subside, but only after a considerable price has been paid in terms of lost output and unemployment._66_/

The Wagner Act clearly did not originate the wage system. As noted, the system's basic outline was already present in 1935. However, the NIRA codes, the Wagner Act, and other legislation of the period, reinforced the notion of fixing the wage -- or pushing it up -- even in the face of adverse economic circumstances. There is statistical evidence that wage flexibility diminished after the 1930s._67_/ And there seemed to be a decided disinterest during the postwar period in criteria for wage setting reflecting employer "ability to pay" as an alternative to the contemporary wage system.

ii. Should Wages Fluctuate with Demand?

Use of ability to pay as an important determinant of employee compensation is not legally in conflict with the Wagner Act. But it is not supported by the Act's underlying economic model. Before the 1920s, ability to pay seemed to be more acceptable as a determinant than after the 1930s. In describing criteria that might be used in wage disputes by arbitrators, Herbert Feis -- writing in 1924 -- argued:

> "...if on the one hand, the particular industry concerned is in a much poorer condition than most others, caution should be used in increasing wages; while if its condition is better than most others, more than ordinary advances may be undertaken."_68_/

But after World War II this view faded. For example, the noted Harvard economist, Sumner Slichter, severely criticized ability to pay as a wage criterion in 1947 arguing that it would amount to "subsidizing inefficiency" since less profitable employers would pay less._69_/ Bernstein's 1954 study of criteria used by (interest) arbitrators in the postwar period suggested that the "financial condition" of the employer was likely to be given little weight except when the condition was extremely grave and a substantial employment reduction would otherwise have resulted._70_/

There is a certain logic to this view in the collective bargaining context. Typically, union contracts give a heavy weight to seniority. When layoffs occur, only the junior employees are affected, unless the economic situation is especially severe. Since unions are political institutions, it is not surprising that the more senior worker -- the "median voter" in the union's political process -- is the key to wage/layoff policy._71_/

In periods of relatively minor economic fluctuations, the median voter will see no reason to permit his/her wage to fluctuate merely to cushion junior employees. Thus, the wage concessions of the early 1980s developed only because in certain industries mass layoffs, plant closings, and bankruptcies threatened the median voter._72_/ Since unions after World War II became pace setters for wage and employment practices -- even in nonunion firms -- it is not surprising to find that a general decrease in wage responsiveness to demand (a lesser emphasis on ability to pay) characterized the postwar period._73_/ And, since the Wagner Act promoted modern collective bargaining, the postwar rejection of wage responsiveness to demand is an indirect legacy of that legislation.

iii. The Macroeconomics of Gain Sharing.

Despite general postwar disinterest in anything but the standard wage system, some employers have long had alternative pay systems in force. In particular, profit sharing has a lengthy history going back into the mid-19th century._74_/ Under profit sharing, ability to pay is automatically reflected in labor compensation through the ups and downs of the profit-sharing bonus. Labor compensation (wage plus bonus) thus is made responsive to the firm's economic circumstance.

In some countries -- notably Japan -- variable bonus payments are substantially more prominent in total compensation than in the U.S._75_/ The Japanese example is particularly of interest since not only has that country exhibited a lower rate of unemployment than the U.S., it has also exhibited a greater resistance to fluctuations in unemployment._76_/ Demand restrictions in Japan reduce inflation more efficiently and less painfully than in the U.S.

It is difficult to estimate precisely how many U.S. workers are covered by true profit sharing. Many firms have retirement programs which they bill as "profit sharing" to escape the regulatory rigors of conventional pension plans while claiming pension-like tax benefits. A 1983 survey of "medium to large" firms, conducted by the Bureau of Labor Statistics, found that roughly one fourth of the employees of those firms had plans described as profit sharing._77_/ However, the exclusion of smaller firms meant that many private wage and salary workers were omitted from from the scope of the survey. There are no data indicating the proportion of small firms under profit sharing but the likelihood is that it is substantially below one fourth. Thus, profit sharing is still by no means a common form of compensation for most American workers.

The usual arguments for profit sharing involve improved employee morale and productivity. Possibly these effects occur. But if they were GUARANTEED to occur, profit sharing would be more widespread than it is. There has also been a history of using profit sharing as part of a campaign by nonunion employers to keep unions out. This history is unfortunate, since it has led to union antipathy toward the profit sharing alternative._78_/ Until quite recently, the macroeconomic side of profit sharing (and other forms of gain sharing) has been neglected.

In the modern world, job seekers often spend considerable time searching for new employment._79_/ And the financial burden of the search is typically left largely on the job seeker. True, a laid off worker will frequently be eligible for unemployment insurance. Possibly other family members will also bring in some income. Nevertheless, income for the unemployed worker is reduced during the search and the job seeker will often be told when he/she inquires at a potential employer that there are no vacancies. But there are some exceptions to the rule that it is the unemployed worker who does the searching.

Door-to-door sales personnel are often sought after by their employers. In May 1985, for example, the LOS ANGELES TIMES reported that the item the Fuller Brush Company was most eager to sell was a job with Fuller Brush as a sales representative._80_/ Why should such sales firms behave differently from most others? In an important new book, Martin Weitzman suggests the answer._81_/

Door-to-door sales personnel are paid on a commission basis. They obtain a SHARE of the sales they generate and their employer collects the residual. It always pays for the employer to add more sales personnel, since the percentage going to the employer is sufficient to cover the costs of obtaining the item being sold. More employees mean more sales and, therefore, more profits. It is the form of the compensation system, the share contract, which produces this result. With a fixed time-based wage, additional sales personnel would also bring in more sales, but because of diminishing marginal returns, the employer would be limited in the

number of salespersons it wanted to hire.

In general, a compensation system based on sharing (profits, revenues, sales) gives the employer an incentive to find new employees. Weitzman describes an economy of firms operating on a gain sharing compensation system as one composed of labor-seeking vacuum cleaners which would suck up unemployed workers and keep the economy at full employment._82_/ The difficulty is making the transition from the current wage system to one with more gain sharing.

For the Weitzman approach to operate, most major employers would need to shift toward a gain sharing form of compensation. By itself, Fuller Brush cannot be expected to solve the nation's economic problems! As a single firm operating within a larger wage system, the unemployed people it hires end up working at lower and lower effective wages. But if most firms operated in a gain sharing mode, competition among them for labor would help keep the wage from declining. And, as will be noted below, unions could play a bargaining role in determining the terms of the sharing arrangement.

Even at the level of an individual firm, however, there is a connection between wage responsiveness to demand (through gain sharing or otherwise) and job security. A firm's payroll can be thought of as its wage (W) times the amount of labor employed (L). As a first approximation, a firm which finds it necessary to reduce its payroll by, say, 5% will be indifferent between a 5% reduction in L (the usual layoff approach) or a 5% reduction in W._83_/ In the early 1980s, unions found themselves confronted, with such trade offs and -- as will be noted below -- some adopted profit sharing as a way of adding more flexibility to W in exchange for less variability in L.

Finally, in section III above, the interplay between wage setting and monetary policy was made clear. When the Federal Reserve puts on the monetary brakes, it does so to slow wage and price inflation. The faster a reaction it obtains, in terms of reduced wage inflation, the less prolonged do anti-inflation recessions need to be. Adding more wage responsiveness to demand conditions through encouragement of gain sharing would be an aid to macroeconomic policy, a reducer of deliberately engineered unemployment, and -- as the Japanese experience suggests -- a general economic stabilizer. WHILE SENATOR WAGNER AND HIS COLLEAGUES SAW WAGE RESPONSIVENESS TO DEMAND AS AN AGGRAVATING FACTOR IN ECONOMIC FLUCTUATIONS, WITH MODERN ACTIVE MACROECONOMIC POLICY, THE REVERSE IS TRUE. MORE GAIN SHARING WOULD REDUCE THE INTENSITY OF THE BUSINESS CYCLE AND KEEP THE ECONOMY CLOSER TO FULL EMPLOYMENT.

iv. The Search for Changes in the 1980s.

The economic downturn which began in 1979 placed great strains on the collective bargaining sector. Concession bargaining came to

characterize key industries, especially those hard hit by the recession, dollar appreciation and foreign competition, and de-regulation. By 1985, the proportion of private-sector union workers covered by major contracts who had experienced a wage cut or freeze since 1979 approached one half. The concession movement started to spread out of its initial sphere of distressed employers into other sectors._84_/

As a result of the concession movement, there began to be increased interest in new approaches to wage determination. COLA clauses were generally continued in union contracts but many were limited by caps, corridors, diversions, and other restrictive devices. Bargainers were less likely -- in other words -- to permit compensation adjustments to be dictated by external inflation, inflation which -- as was often the case in the 1970s -- might reflect forces not necessarily related to the economic circumstances of the bargaining unit.

Firms became less willing to guarantee periodic wage increases. Beginning in 1983, a growing proportion of contract settlements featured fixed, lump-sum bonus payments instead of annual improvement factors. Where competitive wage pressures were intense, bargainers increasingly adopted "two-tier" wage plans, permitting lower wage rates for new hires.

Finally, for the first time the use of profit sharing began to be seriously considered in the union sector and was adopted in some prominent agreements. Often accompanying the profit sharing plans were various assurances regarding job security. Given the earlier analysis, such linkages between job security and profit sharing should come as no surprise to the reader.

Accompanying these developments in wage determination was a paradoxical mixture of conflict and cooperation. Some managements -- encouraged by changes in the economic and political setting -- took an especially hard line with their unions, in some cases breaking strikes and hiring nonunion replacements for their workforces. Others, particularly in situations where a hard line was unlikely to be successful, emphasized cooperation and participation. A variety of "quality of worklife" initiatives flowered.

Within the union movement itself, a heretofore unknown degree of introspection and self criticism developed. The AFL-CIO -- whose leaders had become increasingly disenchanted with the Wagner/Taft-Hartley legal framework -- began to search for alternative roles for unions._85_/ Thus, there is a receptiveness to change on the fiftieth anniversary of the Wagner Act in many areas.

Periods of receptiveness to change do not occur frequently. When they do come -- as at present -- it is often in response to trauma. Psychological research indicates that even when change comes in such circumstances, it can easily be reversed unless

reinforced and supported._86_/ At present, despite the discussion of change in industrial relations circles, and despite some examples of change as a result of concession bargaining, there has been little serious review of these matters by public policy makers.

The Wagner/Taft-Hartley framework -- and the practices of wage setting which arose under that framework -- have not been seriously reviewed by Congress and the President since 1947. Changes after 1947 have involved tinkering and embellishment. Even in the public sector -- where substantial unionization developed well after 1947 -- legislatures have been content to model their legal regulatory systems on the NLRB and its private sector accoutrements.

This lack of imagination and attention would be understandable if all had gone smoothly. But all has not gone smoothly. From a macroeconomic viewpoint, the experience of the early 1980s suggests that the collision of wage setting and anti-inflation monetary policy is something the nation should be striving to avoid in the future. Public policy should be moving to foster the needed changes toward a greater degree of gain sharing in wage setting.

VII. Gain Sharing, the Wagner Act, and Other Policies.

To the extent that public policy has attempted to influence wage setting behavior in the post-World War II period, it has been primarily by way of formal wage controls, guidelines, or programs falling somewhere in between. Although less extensive in terms of the administrative bureaucracy created, the controls of the Korean War period can be viewed as an offshoot of the World War II program. It is really the Kennedy Administration in the early 1960s that began to experiment with direct intervention in wage setting as an ongoing instrument of economic policy._87_/

Although the Nixon administration initially eschewed the use of "voluntary" guidelines along the Kennedy/Johnson model, it eventually launched a full-scale program of mandatory wage-price controls._88_/ After that program ended in early 1974, there was a hiatus in direct intervention. But the Carter administration reinstituted the guidelines approach, this time with the threat of revocation of federal purchasing contracts, for firms which did not comply._89_/

As a whole, the best that can be said for these programs is that given contemporary wage-setting institutions, they may -- under ideal circumstances -- have some influence on inflation expectations and notions of what the "normal" rate of wage adjustment should be. The difficulty is that circumstances are often not ideal, making programs of direct intervention extremely prone to demolition by external forces such as foreign oil price increases.

Frustration over the high costs of inflation restraint through traditional monetary policy, and over the inability of direct intervention programs to improve economic performance in the 1960s and 1970s, has led to various suggestions. Some economists have proposed that multiyear union contracts should be banned, arguing that wage settlements under one-year agreements would be more responsive to demand conditions. But even if the hypothesis of more responsiveness were correct, there would be severe opposition to any such proposal -- especially from the management community -- because of the increased exposure to strike risk inherent in one-year contracts._90_/

Other economists have proposed using taxes and subsidies to "bribe" wage setters into conforming their behavior to anti-inflation standards. Such "tax-based incomes policies" (TIPs) are easy to formulate in the abstract, but extremely hard to design in practice because of the complexity of writing all the institutional features of wage setting into the Internal Revenue Code. A Carter administration TIP proposal -- which would have provided tax credits for complying workers contingent on price inflation -- was ultimately rejected by Congress because of its complexity and uncertain costs._91_/

The lesson from these efforts is that while fundamental institutional reform is needed, it cannot be imposed by some quick-fix gimmick. Rather, the need is to reinforce those positive trends already in evidence. Since there is growing interest in gain sharing, the challenge is to channel it into actual implementations of the right kind of program.

It should be evident that gain sharing in the unionized sector must inevitably involve a higher degree of labor-management cooperation than has been the norm. If, for example, an important component of worker pay is to be derived from profit sharing, it is inevitable that unions will become concerned with access to the accounts from which profit estimates are derived. Thus, gain sharing and information sharing are linked. Indeed, in the past the thought of having to share information has been a factor inhibiting management interest in profit sharing._92_/

The likelihood is that if profit sharing becomes an important source of compensation, union interest will spread beyond mere information and toward the management decision making process itself. While the overall business cycle is an important determinant of aggregate profitability, the fate of each firm's profits is also critically dependent on the quality of its management decisions. Workers dependent on profit sharing will want representation in those decisions. The sharp demarcation between labor and management which is part of the Wagner/Taft-Hartley framework will be challenged in a gain sharing economy.

Even where no form of gain sharing exists, unions and employers have been showing increased interest in quality of

worklife initiatives, typically involving some degree of worker participation in management decisions. The further such experiments develop, the more logical it will seem to have those who contribute to decisions share in the fruits (sweet or bitter) of those decisions. By simply building on these tendencies, public policy can tilt wage setting toward a gain sharing approach.

Tax credits for appropriate gain sharing plans are the most obvious way to promote needed reform. Even in a period of concern about federal budget deficits, considerable incentives could be given simply by directing current tax expenditures on profit sharing to those plans which are actually contingent on profits. Plans which are termed "profit sharing," but which have no precise profit-based formulas should not be rewarded, as they currently are, by favorable tax treatment. Similarly, the tax provisions which heavily promote Employee Stock Ownership Plans (ESOPs) need to be re-examined. Except in the few cases of complete worker ownership, ESOPs simply spread stock around without changing wage responsiveness to demand or internal employment incentives; they are frequently little more than tax-advantaged financing gimmicks. The tax expenditures which now support ESOPs could better be spent promoting true gain sharing.

But even with appropriate tax incentives in place, there is the intangible -- but important -- element of climate. Perhaps the place to start would be to delete the second paragraph of the

Wagner Act's preamble -- quoted in Section I of this essay -- and substitute the following language:

"Equalization of bargaining power between employees and employers is the objective of this Act. Such bargaining can promote the flow of commerce at a high employment level and reduce inflationary pressures by developing gain sharing pay plans whereby a significant portion of employee compensation reflects the economic circumstances of the employer. The development of gain sharing will be fostered by increased sharing of information and decision making by employers with their employees and labor organizations."

FOOTNOTES

1. Richard B. Freeman and James L. Medoff, WHAT DO UNIONS DO? (New York: Basic Books, 1984), pp. 5-11.

2. Quoted in Harry A. Millis and Emily Clark Brown, FROM THE WAGNER ACT TO TAFT-HARTLEY (Chicago: University of Chicago Press, 1950), p. 3.

3. 49 Stat. 449 (1935), Section 1.

4. 47 Stat. 70 (1932), Section 2.

5. Robert F. Himmelberg, THE ORIGINS OF THE NATIONAL RECOVERY ADMINISTRATION: BUSINESS, GOVERNMENT, AND THE TRADE ASSOCIATION ISSUE, 1921-1933 (New York: Fordham University Press, 1976).

6. 48 Stat. 195 (1933), Title I, Section 1.

7. Charles L. Dearing, et al, THE ABC OF THE NRA (Washington: Brookings Institution, 1934), p. 128.

8. George F. Warren and Frank A. Pearson, GOLD AND PRICES (New York: John Wiley & Sons, 1935), p. 428.

9. National Labor Relations Board, LEGISLATIVE HISTORY OF THE NATIONAL LABOR RELATIONS ACT: 1935 (Washington: GPO, 1949), vol. I, p. 1. [Volumes I and II of this publication are denoted below as "WAGNER HEARINGS"].

10. WAGNER HEARINGS, vol. I, p. 15.

11. WAGNER HEARINGS, vol. I, p. 17.

12. WAGNER HEARINGS, vol. I, p. 42.

13. See the statement of Senator Cutting of New Mexico in WAGNER HEARINGS, vol. I, p. 1251.

14. See the statement by AFL president William Green in WAGNER HEARINGS, vol. I, p. 98. Earlier statements of the AFL position can be found scattered through official publications of the Federation. See, for example, "Overproduction Myth," AMERICAN FEDERATIONIST, vol. 37 (July 1930), p. 789.

15. WAGNER HEARINGS, vol. I, pp. 515-516, 546-548, 600-601. In contrast to the employer view, the Communist Party in testimony before the Senate Committee on Labor and Education castigated the Wagner bill as a trick by capitalists to conceal class conflict. See WAGNER HEARINGS, vol. II, pp. 1967-1973.

16. Edward S. Mason, "The National Recovery Administration," QUARTERLY JOURNAL OF ECONOMICS, vol. XLIX (August 1935), p. 673.

17. Harold G. Moulton et al, THE RECOVERY PROBLEM IN THE UNITED STATES (Washington: Brookings Institution, 1936), p. 530.

18. Simon Kuznets, CAPITAL IN THE AMERICAN ECONOMY: ITS FORMATION AND FINANCING (Princeton, N.J.: Princeton University Press, 1961), p. 487.

19. Data cited in the text drawn from U.S. Bureau of Economic Analysis, THE NATIONAL INCOME & PRODUCT ACCOUNTS OF THE UNITED STATES, 1929-76: STATISTICAL TABLES (Washington: GPO, 1981), p. 6.

20. Lauchlin Currie, "The Failure of Monetary Policy to Prevent the Depression of 1929-32," JOURNAL OF POLITICAL ECONOMY, vol. 42 (April 1934), p. 176.

21. Milton Friedman and Anna Jacobson Schwartz, A MONETARY HISTORY OF THE UNITED STATES: 1867-1960 (Princeton, N.J.: Princeton University Press, 1963), pp. 299-419; Alexander J. Field, "Asset Exchanges and the Transactions Demand for Money, 1919-29," AMERICAN ECONOMIC REVIEW, vol. 74 (March 1984), pp. 43-59.

22. Paul H. Douglas, CONTROLLING DEPRESSIONS (New York: W.W. Norton & Co., 1935), pp. 67-77. Although he endorsed the theory that an insufficient share for labor contributed to the Great Depression, writing in 1935, Douglas expressed doubt that wages should be pushed up any further than had been done under the NIRA because firms had not borrowed sufficiently to finance the enlarged wage bill. (See pp. 225-226).

23. National Labor Relations Board, LEGISLATIVE HISTORY OF THE LABOR MANAGEMENT RELTIONS ACT, 1947 (Washington: GPO, 1948), vol. I, p. 33. [Volumes I and II of this publication are denoted below as "TAFT-HARTLEY HEARINGS"].

24. Harold W. Metz and Mayer Jacobstein, A NATIONAL LABOR POLICY (Washington: Brookings Institution, 1947), pp. 61-64. Representative Adam Clayton Powell, an opponent of the Hartley bill, referred to the Brookings book as "practically the bible" of the bill's proponents. TAFT-HARTLEY HEARINGS, vol. I, p. 776.

25. TAFT-HARTLEY HEARINGS, vol. I, pp. 355-356, 379.

26. After the bill passed, Congressman Hartley wrote a book on federal labor policy with an introduction by Senator Taft. Taft argued in his introduction that originally employers did have too much power over their employees but that the Wagner Act and other legislation tipped the balance excessively in favor of labor. He rejects claims by Hartley that the Senate bill (Taft's bill) was watered down merely to obtain votes. See Robert A. Taft, "Forward" in Fred A. Hartley, Jr., OUR NEW NATIONAL LABOR POLICY: THE TAFT-HARTLEY ACT AND THE NEXT STEPS (New York: Funk & Wagnalls

Co., 1948), pp. xi-xiii.

27. TAFT-HARTLEY HEARINGS, vol. II, p. 1649.

28. John Maynard Keynes, THE GENERAL THEORY OF EMPLOYMENT, INTEREST, AND MONEY (New York: Harcourt, Brace & World, 1936).

29. Irving Bernstein, THE TURBULANT YEARS: A HISTORY OF THE AMERICAN WORKERS, 1933-1941 (Boston: Houghton Mifflin, 1970), p. 18.

30. U.S. Department of Labor, TERMINATION REPORT: NATIONAL WAR LABOR BOARD (Washington: GPO, no date), vol. I, p. 181.

31. For a report on this legislation, see Stephen Kemp Baily, CONGRESS MAKES A LAW: THE STORY BEHIND THE EMPLOYMENT ACT OF 1946 (New York: Columbia University Press, 1950). Baily notes that Senator Taft was willing to accept the Senate version of the bill which did not involve the government in a guarantee of full employment. Given his preference for not charging the federal government with such a responsibility, Taft's willingness to leave the Wagner Act's wage/purchasing power preamble intact may have reflected an underlying preference for leaving economic matters at the micro level. (See pp. 195-198).

32. Despite the tendency of the model to reinforce the initial wage effect on employment, there need not be an implication that any wage increase will set off an unending employment expansion. The model has a self-limiting multiplier action under reasonable assumptions.

33. Real wage increases are calculated from the national income accounts by deflating wages and salaries per full-time employee equivalent for the overall economy by the personal consumption deflator. Productivity is calculated from the ratio of real GNP to total full-time equivalent employment.

34. Prof. Larry J. Kimbell of the UCLA Business Forecasting Project was kind enough to make the simulation for me described in the text. The simulation was made on the assumption of unchanged monetary policy defined as the growth in the level of nonborrowed reserves of Federal Reserve member banks. A 10% increase in wage pushiness was simulated as an addition to the constant term for 1985 only in the wage-change equation so that given initial conditions, wages would rise 10 percentage points faster than otherwise. As noted in the text, since initial conditions are changed by the wage boost, the actual jump in wage inflation is above 10 percentage points.

35. For example, real GNP is 2.7% below the level otherwise forecasted after 2 years according to the model. But the inflation effect tends to taper off; the GNP deflator is increasing after 2 years by less than 3 percentage points above its otherwise forecasted value. The employment effect is the most ambiguous because the model assumes a significant deterioration in productivity performance due to the induced recession. Employment is slightly below otherwise forecasted levels the first year, slightly above in the second year, and slightly below in the third year. Real consumption falls below otherwise forecasted levels after the first year.

36. This and other citations below are from the official minutes of the Committee. These minutes appear on a regular basis in a section entitled "Record of Policy Actions of the Federal Open Market Committee" published in the FEDERAL RESERVE BULLETIN and are denoted below as "Minutes." The citation in the text is from "Minutes," meeting of August 16, 1977, FEDERAL RESERVE BULLETIN, vol. 63 (October 1977), p. 915.

37. "Minutes," Meeting of February 28, 1978, FEDERAL RESERVE BULLETIN, vol. 64 (April 1978), p. 296.

38. "Minutes," Meeting of April 18, 1978, FEDERAL RESERVE BULLETIN, vol. 64 (June 1978), p. 470.

39. "Minutes," Meeting of July 18, 1978, FEDERAL RESERVE BULLETIN, vol. 64 (September 1978), p. 749.

40. "Statement by Henry C. Wallich, Member, Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing and Urban Affairs, U.S. Senate, February 8, 1979," FEDERAL RESERVE BULLETIN, vol. 65 (February 1979), pp. 133-134.

41. "Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Committee on the Budget, U.S. House of Representatives, September 5, 1979," FEDERAL RESERVE BULLETIN, vol. 65 (September 1979), p. 740.

42. "Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Budget Committee, U.S. Senate, July 24, 1980," FEDERAL RESERVE BULLETIN, vol. 66 (August 1980), p. 639.

43. "Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, July 21, 1981," FEDERAL RESERVE BULLETIN, vol. 67 (August 1981), p. 614.

44. "Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Joint Economic Committee of the U.S. Congress, January 26, 1982," FEDERAL RESERVE BULLETIN, vol. 68 (February 1982), p. 89.

45. "Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing, and Urban Affairs, July 20, 1982," FEDERAL RESERVE BULLETIN, vol. 68 (August 1982), p. 488.

46. "Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Joint Economic Committee of the U.S. Congress, November 14, 1982," FEDERAL RESERVE BULLETIN, vol. 68 (December 1982), p. 748.

47. "Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Joint Economic Committee of the U.S. Congress, January 27, 1983," FEDERAL RESERVE BULLETIN, vol. 69 (February 1983), p. 77.

48. "Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, February 16, 1983," FEDERAL RESERVE BULLETIN, vol. 69 (March 1983), p. 168.

49. "Statement by Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System, before the Committee on the Budget, U.S. Senate, February 29, 1984," FEDERAL RESERVE BULLETIN, vol. 70 (March 1984), p. 206.

50. See, for example, William Fellner, "Monetary and Fiscal Policy in a Disinflationary Process: Justified and Unjustified Misgivings about Budget Deficits" in William Fellner, ed., ESSAYS IN CONTEMPORARY ECONOMIC PROBLEMS: DISINFLATION, 1983-1984 EDITION (Washington: American Enterprise Institute, 1984), pp. 55-86.

51. 49 Stat. 449 (1935), section 1. The act defines labor organizations as existing to deal with "grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work." [Section 2(5)]. Labor disputes are defined as involving controversies over "terms or conditions of employment." [Section 2(9)].

52. See WAGNER HEARINGS, vol. I, pp. 22-26.

53. The Bureau of Labor Statistics undertook a major survey of company unions in 1935. Of those for which a start-up date could be determined, about two thirds were established during the NIRA period, suggesting their creation was an expedient to ward off outside unions. See U.S. Bureau of Labor Statistics, CHARACTERISTICS OF COMPANY UNIONS, 1935 (Washington: GPO, 1937), p. 54.

54. Sanford M. Jacoby, "Union-Management Cooperation: An Historical Perspective" in Eric G. Flamholtz, ed., HUMAN RESOURCE PRODUCTIVITY IN THE 1980S (Los Angeles: UCLA Institute of Industrial Relations, 1982), pp. 206-211.

55. For a discussion of the foremen issue, see Benjamin J. Taylor and Fred Witney, LABOR RELATIONS LAW, second edition (Englewood Cliffs, N.J.: Prentice-Hall, 1975), pp. 297-304.

56. For discussion, see Hartley, OUR NEW NATIONAL LABOR POLICY, op. cit., p. 167.

57. For a general study of the position of the management community, see Howell John Harris, THE RIGHT TO MANAGE: INDUSTRIAL RELATIONS POLICIES OF AMERICAN BUSINESS IN THE 1940S (Madison: University of Wisconsin, 1982). Harris notes the reaction at General Electric, an employer which considered itself a model of good labor relations, to a bitter strike in 1946. GE had recognized the United Electrical Workers in the 1930s at a time when other employers were strenuously resisting the new unions. After the strike, GE embarked on a new course of labor relations and bargaining, ultimately to be known as "Boulwarism." Lemuel Boulware, GE's new Vice President for Employee and Community Relations, viewed his assignment as correcting "the ridiculous situation where -- despite the best intentions and the best practices known -- the company was distrusted and disapproved of by employees..." The resulting policy of trying to convince employees that GE would do right by them, with or without their unions, led to two decades of industrial relations strife and litigation. [The quote is from Lemuel R. Boulware, THE TRUTH ABOUT BOULWARISM: TRYING TO DO RIGHT VOLUNTARILY (Washington: Bureau of National Affairs, Inc., 1969), p. 3].

58. Management texts of the period stress the appropriate separation of management and union interests. See, for example, Stephen F. Dunn, MANAGEMENT RIGHTS IN LABOR RELATIONS (Grand Rapids, Mich.: Woodbeck Publishing Co., 1946). Dunn notes that "collective bargaining is a vital part of managerial responsibility and is not intended to infringe upon managerial rights or functions. ...Employers should know their rights and be firm..." (p. 77). At a 1945 labor-management conference called by the President, union and management representatives were unable to agree on a common statement regarding management rights. See U.S. Department of Labor, Division of Labor Standards, THE PRESIDENT'S LABOR-MANAGEMENT CONFERENCE: NOVEMBER 5-30, 1945 (Washington: GPO, 1946), pp. 56-62.

59. The Bureau of Labor Statistics has varied its data collection procedure with regard to union membership and representation. According to BLS estimates based on membership surveys, union members accounted for 34-36% of nonagricultural payroll employment immediately after World War II. The ratio fell somewhat thereafter but rose again to roughly the same level immediately after the Korean War. By 1970, on the same basis, the ratio had declined to

about 27%. During the 1960s, however, certain employee associations -- mainly in the public sector -- had adopted union-like bargaining functions. Including those organizations raises the 1970 figure to 30%. But by 1980, the figure had declined to about one fourth. Since 1980, the BLS has relied on the Current Population Survey for unionization estimates. In 1980, the CPS data indicated that about 26% of wage and salary workers were represented by unions (including non-members in bargaining units). By 1984, that estimate had declined to just under 22%. Sources: U.S. Bureau of Labor Statistics, HANDBOOK OF LABOR STATISTICS, bulletin 2070 (Washington: GPO, 1980), p. 412; U.S. Bureau of Labor Statistics, press release USDL: 81-435, September 3, 1981; U.S. Bureau of Labor Statistics, EARNINGS AND OTHER CHARACTERISTICS OF ORGANIZED WORKERS, MAY 1980, bulletin 2105 (Washington: GPO, 1981), p. 6; Paul O. Flaim, "New Data on Union Members and their Earnings," EMPLOYMENT AND EARNINGS, vol. 32 (January 1985), pp. 13-14, 208-211.

60. Daniel J.B. Mitchell, UNIONS, WAGES, AND INFLATION (Washington: Brookings Institution, 1980), pp. 45-47.

61. A chart of these trends may be found in Freeman and Medoff, WHAT DO UNIONS DO?, op. cit., p. 232.

62. Mitchell, UNIONS, WAGES, AND INFLATION, op. cit., pp. 48-53.

63. On union/nonunion wage trends in the late 1970s, see Daniel J.B. Mitchell, "Collective Bargaining and Wage Determination in the 1970s" in Barbara D. Dennis, ed., PROCEEDINGS OF THE THIRTY-THIRD ANNUAL MEETINGS, September 5-7, 1980 (Madison: Industrial Relations Research Association, 1981), pp. 135-142.

64. Using data on workers covered by major private union agreements (agreements covering 1,000 or more workers) over the period 1979-84, I estimated that only about one fourth of the drop of about 2 million represented workers could be explained by industry-level production worker employment trends. See Daniel J.B. Mitchell, "Shifting Norms in Wage Determination," UCLA Institute of Industrial Relations working paper number 84, April 1985, footnote 5.

65. For discussion of the history of contractual devices, see Sanford M. Jacoby and Daniel J.B. Mitchell, "Development of Contractual Features of the Union-Management Relationship," LABOR LAW JOURNAL, vol. 33 (August 1982), pp. 512-518.

66. Okun estimated that raising the unemployment rate by 1 percentage point for a year would produce not more than a 0.5 percent reduction in the inflation rate. Although precise estimates will vary, depending on the period considered, (Okun wrote in the late 1970s) his estimate is still within the range of current thinking. See Arthur M. Okun, "Efficient Disinflationary Policies," AMERICAN ECONOMIC REVIEW, vol. 68 (May 1978), p. 348.

67. See Daniel J.B. Mitchell, "Wage Flexibility: Then and Now," INDUSTRIAL RELATIONS, vol. 24, forthcoming.

68. Herbert Feis, PRINCIPLES OF WAGE SETTLEMENT (New York: H.W. Wilson Co., 1924), p. 189.

69. Sumner H. Slichter, BASIC CRITERIA USED IN WAGE NEGOTIATIONS (Chicago: Chicago Association of Commerce and Industry, 1947), p. 27.

70. Irving Bernstein, ARBITRATION OF WAGES (Berkeley: University of California Press, 1954), pp. 77-90. See also Jules Backman, ECONOMIC DATA UTILIZED IN WAGE ARBITRATION (Philadelphia: University of Pennsylvania Press, 1952), pp. 39-43.

71. Median voter models picture the union as a democratic decision maker with the key constituent being the voter who just provides the majority on any issue. If workers are ranked by seniority, the median voter is a member with a middle range of seniority, not the most junior member. More realistically, since in any organization the more senior members play a disproportionate role in decision making, the union is especially biased towards the interest of senior members. This tendency shows up in layoff and promotion features of union contracts and in the tilt of union-negotiated fringes toward benefits of special value to senior employees. See Freeman and Medoff, WHAT DO UNIONS DO?, op. cit., pp. 122-135.

72. Daniel J.B. Mitchell, "Recent Union Contract Concessions," BROOKINGS PAPERS ON ECONOMIC ACTIVITY (1:1982), pp. 165-201; Robert J. Flanagan, "Wage Concessions and Long-Term Union Wage Flexibility," BROOKINGS PAPERS ON ECONOMIC ACTIVITY (1:1984), pp. 183-216.

73. Researchers have found, for example, that seniority is important in nonunion personnel decisions, although less so than in the union sector. Thus, one would expect that nonunion wages would be insensitive to demand, but would show somewhat more sensitivity than union wages, a result which has generally been confirmed. On union and nonunion use of seniority, see Katherine G. Abraham and James L. Medoff, "Length of Service in Union and Nonunion Work Groups," INDUSTRIAL AND LABOR RELATIONS REVIEW, vol. 38 (October 1984), pp. 87-97.

74. For some early historical references, see National Industrial Conference Board, PROFIT SHARING (New York: NICB, 1934), pp. 3-7.

75. Bonus payments amount to about one fifth of total compensation of Japanese production workers in manufacturing. See U.S. Bureau of Labor Statistics, HANDBOOK OF LABOR STATISTICS, bulletin 2175 (Washington: GPO, 1983), p. 438.

76. The U.S. Department of Labor recently released a study on comparative Japanese-U.S. labor market adjustments. Greater wage flexibility and the bonus system are cited as factors enabling Japanese firms to provide more stable employment for their workers. See Bureau of International Labor Affairs, U.S. Department of Labor, UNITED STATES-JAPAN COMPARATIVE STUDY OF EMPLOYMENT ADJUSTMENT, March 1985. (Available from the Bureau).

77. U.S. Bureau of Labor Statistics, EMPLOYEE BENEFITS IN MEDIUM AND LARGE FIRMS, 1983, bulletin 2213 (Washington: GPO, 1984), p. 60.

78. See Daniel J.B. Mitchell, "Wage Flexibility in the United States: Lessons from the Past," AMERICAN ECONOMIC REVIEW, vol. 75 (May 1985), pp. 36-40.

79. The median spell of unemployment in 1983 was reported to be over 13 weeks in duration. Married-couple families in which some family member experienced unemployment had median annual incomes 25% below those families with no unemployment. For one-earner families, the gap was 40%. See Ellen Sehgal, "Work Experience in 1983 Reflects the Effects of the Recovery," MONTHLY LABOR REVIEW, vol. 107 (December 1984), pp. 23-24.

80. Doris A. Fuller, "Fuller Brush Man Still Knocking," LOS ANGELES TIMES, Part 4, May 13, 1985, pp. 1-2.

81. Martin L. Weitzman, THE SHARE ECONOMY: CONQUERING INFLATION (Cambridge, Mass.: Harvard University Press, 1984).

82. The vacuum cleaner analogy is used by Weitzman. See Martin L. Weitzman, "Some Macroeconomic Implications of Alternative Compensation Systems," ECONOMIC JOURNAL, vol. 93 (December 1983), p. 777.

83. This approach is discussed more fully in Daniel J.B. Mitchell, "The Changing American Workplace," THE LABOR LAWYER, vol. 1 (Spring 1985), pp. 314-318.

84. The empirical material underlying this section is developed in Daniel J.B. Mitchell, "Shifting Norms in Wage Determination," op. cit.

85. AFL-CIO president Lane Kirkland first hinted at disenchantment with the basic labor law regulatory system in early 1983. See his statement in "Scofflaw Firms Rewarded with Hefty U.S. Contracts," AFL-CIO NEWS, May 7, 1983, p. 7. This sentiment was made still more explicit in a newspaper interview in mid 1984. See Cathy Trost and Leonard M. Apcar, "AFL-CIO Chief Calls Labor Law a 'Dead Letter,'" WALL STREET JOURNAL, August 16, 1984, p. 8. Finally, in early 1985, the AFL-CIO circulated an official report advocating departures from the traditional NLRB form of worker representation. [AFL-CIO, THE CHANGING SITUATION OF WORKERS AND THEIR UNIONS (Washington: AFL-CIO, 1985)]. This report was

heavily influenced by a study by James Medoff. See "Study for AFL-CIO on Public's Image of Unions by Economist James L. Medoff of Harvard University," DAILY LABOR REPORT, December 24, 1984, pp. D1-D23.

86. William Sargant, BATTLE FOR THE MIND: A PHYSIOLOGY OF CONVERSION AND BRAIN-WASHING (London: Pan Books Ltd.: 1959), chapter 10, deals with the need for reinforcement after political or religious conversions to prevent new-found beliefs from eroding.

87. For a history and evaluation of the Kennedy/Johnson guideposts program, see John Sheahan, THE WAGE-PRICE GUIDEPOSTS (Washington: Brookings Institution, 1967).

88. On the Nixon program, see Arnold R. Weber and Daniel J.B. Mitchell, THE PAY BOARD'S PROGRESS: WAGE CONTROLS IN PHASE II (Washington: Brookings Institution, 1978); and Office of Economic Stabilization, U.S. Department of the Treasury, HISTORICAL WORKING PAPERS ON THE ECONOMIC STABILIZATION PROGRAM: AUGUST 15, 1971 TO APRIL 30, 1974 (Washington: GPO, 1974), Part I, pp. 325-426.

89. Little has been written on the Carter program. A critical summary appears in U.S. General Accounting Office, THE VOLUNTARY PAY AND PRICE STANDARDS HAVE HAD NO DISCERNIBLE EFFECT ON INFLATION, PAD-81-02 (Washington: GPO, 1980).

90. The proposals for mandatory short-duration contracts are discussed in Sanford M. Jacoby and Daniel J.B. Mitchell, "Employer Preferences for Long-Term Union Contracts," JOURNAL OF LABOR RESEARCH, vol. 5 (Summer 1984), pp. 215-228.

91. On the Carter administration's TIP plan, see Daniel J.B. Mitchell, "The Rise and Fall of Real Wage Insurance," INDUSTRIAL RELATIONS, vol. 19 (Winter 1980), pp. 64-73. A general discussion of TIP proposals can be found in Arthur M. Okun and George L. Perry, eds., CURING CHRONIC INFLATION (Washington: Brookings Institution, 1978).

92. In the late 1930s, hearings on profit sharing were held in Congress. There was some sentiment at the time for promoting profit sharing as a way of reducing industrial disputes. But management spokespersons, notably Alfred Sloan of General Motors, expressed fear that profit sharing would lead to management sharing. The response of proponents of profit sharing at the time was to try and allay such fears by promising that profit sharing could be operated without encroachment on management. See U.S. Senate, Committee on Finance, SURVEY OF EXPERIENCES IN PROFIT SHARING AND POSSIBILITIES OF INCENTIVE TAXATION, 75th Congress, 3rd session (Washington: GPO, 1939), pp. 9-10, 475. Labor representatives -- William Green of the AFL and John L. Lewis of the CIO -- were not particularly enthusiastic about profit sharing but hinted that it would indeed involve sharing of management. (pp. 106, 189).