Mitchell's Musings 10-8-12: Controlling Meany

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In the early 1970s, union contracts covered about a fourth of the workers on U.S. payrolls. Today, the fraction is about half that. Moreover, while there is a still a public image of a union worker as a blue collar type working in the private sector, say, in construction or manufacturing, about half of union coverage is now in the public sector. Of course, the stereotypical image is a throwback to an earlier era. To some extent, that image was personified by George Meany, president of the AFL-CIO from 1955 until he stepped down in 1979. Meany, with his trademark cigar, had come up from the New York City building trades and looked the part.

Even in the early 1970s, private sector unionization had been slipping as a proportion of the workforce for almost two decades. But the trend was partially masked by the rise of public sector unionization. Through executive order and later legislation at the federal level and through state and local legislation, public sector collective bargaining was growing. Moreover, in absolute terms, union membership grew even if it failed to keep up with workforce expansion. Still, in the mid-1950s when the AFL-CIO was born out of the merger of two rival union federations, the relative slippage had begun just as Meany took over as the most visible face of organized labor.

Despite the decline in private unionization, union wage bargaining was viewed by the Kennedy and Johnson administrations as a significant component of the inflation process. A system of voluntary anti-inflation wage-price guideposts was installed by the Kennedy administration, an American version of "incomes policies" found in Western Europe and elsewhere abroad. These guideposts fell apart under Lyndon Johnson's administration as the labor market heated up during the Vietnam War demand expansion. But the guidepost attempt reflected an important train of macroeconomic thought in that era.

With the election of Richard Nixon in 1968, such programs fell into disfavor only to be revived by the new President to an extent far more reaching than under Kennedy-Johnson. Nixon imposed *mandatory* wage-price controls in mid-August 1971. The Nixon program went through various phases with the initial Phase I being a 90-day freeze. Phase II was announced in early October 1971, but did not go into formal effect until mid-November when the freeze expired. Under Phase II, the wage side of the program was to be administered by a tripartite Pay Board with five members each from management, from labor (which meant private sector union leaders at the time), and from the public. Readers of earlier Mitchell's musings will know some of this history.

Readers will also know from prior musings that the Nixon White House tapes – revealed during the Watergate affair - are increasingly being put online. But the ability to find the relevant information about the relation between the White House and organized labor as wage-price controls were imposed on the tapes is limited. The search aids available are geared to such "big" episodes as Watergate and the Vietnam War. In order to find relevant information on the controls or other areas of economic policy, researchers have to look for personalities identified as being in the conversations who might have had something to do with economic policy or for dates during which such policy might have been discussed. Audio quality varies substantially; some tapes are essentially inaudible. However, there are usable taped conversations – or excerpts within such conversations – that do deal with controls policy.

Even though unionization was slipping, it was clear at the time that the Nixon Phase II wage-price controls were essentially linked to labor costs. Price controls were basically allowable markups over cost and, at the macro level, *net* costs are heavily labor costs. The Phase II wage guidelines (really wage *increase* guidelines) were based on a complicated mix of compromises wrapped around a basic concept that wages should rise at the same rate as national productivity plus a target rate of (low) inflation. Although even in 1971, nonunion labor costs were dominant in the American economy, there was a belief that unions were in key sectors which set wage patterns in other industries, both union and nonunion. There were thus a few key unions in a few key industries and thus a handful of key labor leaders seen as important to any anti-inflation policy.

Of course, the AFL-CIO as an organization, and in the person of George Meany, had to be on the Pay Board. But two big unions in the early 1970s were not part of the AFL-CIO. The United Auto Workers (UAW) had dropped out of the labor federation in 1968 over tensions related to the Vietnam War. In the early 1970s, the UAW was headed by Leonard Woodcock. And the Teamsters had been expelled from the AFL-CIO in the late 1950s over corruption issues. Teamsters president Jimmy Hoffa was in fact in prison but he remained the titular head of the union. The actual head – although he could not take the title of president as long as Hoffa retained it – was Frank Fitzsimmons.

Given these institutional realities, the Pay Board's labor members initially included Meany, Woodcock, and Fitzsimmons. Two other AFL-CIO unions were also represented: the Steelworkers under I.W. Abel, and the Machinists under Floyd Smith. To the extent there was an individual in the Nixon administration in 1971 who was a liaison to organized labor, it was George Shultz. Shultz at that time was director of the Office of Management and Budget (OMB) but he had been Nixon's first Secretary of Labor.

Shultz was able to maintain a personally friendly relationship with Meany. Fitzsimmons was also friendly with Shultz. It is noteworthy that the Teamsters' head had a special reason to be friendly. If Nixon pardoned Hoffa on condition that he step down as president of the Teamsters and avoid further union activity, Fitzsimmons could have the union's presidential title and not worry about Hoffa interference.

At the time the Pay Board was being formed, the presidential election of 1972 was only a year away. Typically, the AFL-CIO would back the Democratic candidate. As it turned out, the Democrat ended up being the anti-Vietnam War George McGovern. So, in the end, the AFL-CIO and Meany were neutral in the election and Fitzsimmons and the Teamsters - after Hoffa received his conditional pardon - endorsed Nixon. But none of these developments were evident a year before the election.

Four Nixon taped conversations give insight into this period. First, Nixon bought into the idea of wage-push inflation and the need for controls – particularly on key labor union settlements - although not all of his advisors did. Second, Nixon relied heavily on Shultz for advice on what to do about organized labor, particularly as labor leaders protested the freeze and the emerging design of Phase II. As Phase II planning and implementation developed, there was a clash, which became public, between the President and Meany. I have put up two YouTube videos which contain four conversations in all that are revealing about the internal thinking and planning in the Nixon administration that went on in the fall of 1971.

The first conversation between Nixon and Shultz on September 23, 1971 (before the outline for Phase II had been announced and probably even before the plan had been made final) shows Nixon fretting over what Woodcock and Meany might do in response to whatever is put forward. Nixon wanted to appear tough on labor and believed that the union leaders were out of step with their membership, but he also wanted their cooperation with Phase II. He asks Shultz if Woodcock and Meany had to be treated with "kid gloves." Shultz doesn't think so but wants the focus to be on what Woodcock and Meany were saying rather than on them as personalities. He cautions Nixon that saying that union leaders were out of touch with their membership would especially annoy them.

A second conversation between Nixon and Shultz occurred on November 2, 1971. By this time, the design of Phase II had been announced although Phase II itself would not formally begin until mid-November. Nixon says he would like to "take on Meany" but as before he is fretting that labor could walk out of the Pay Board or not cooperate and thus kill the Phase II program. In fact, Nixon says he really has very limited sanctions that he could impose as a practical matter if labor doesn't cooperate. He is willing to make concessions and make a deal, almost any deal that is necessary. The only real sanction he sees to obtain labor cooperation is public relations. Nixon believes that the general public favors his wage-price program and, if labor is uncooperative, the union leaders would be blamed.

You can hear these two conversations at http://www.youtube.com/watch?v=afJhbXMeL5o.

The next two conversations occur when Phase II is in early operation but there remains great tension at the Pay Board between labor and management and the public members. As of November 20, 1971, Nixon is still worried about what would happen if labor walked out. Shultz doesn't think that such a walkout is imminent but agrees with Nixon that Meany is unstable and unpredictable. Shultz says that there is no question that there is a "war" between the Nixon administration and Meany and the only question is how to fight the war.

Toward the end of the conversation, the issue of the Hoffa pardon arises. Shultz has been told second-hand that Meany would not object to a pardon (even though it was the AFL-CIO under Meany that ejected Hoffa and the Teamsters from the federation on corruption charges). But Shultz and Nixon are unsure of what Meany might actually do if a pardon were granted. The conversation is evidence of the early thinking on the pardon and its implicit relationship to Teamsters' cooperation with the wage-price program.

Amidst the tensions over Phase II, Nixon went to the AFL-CIO convention in Miami to speak. At the convention, he received a frosty reception, especially from Meany. In a conversation of November 22, 1971 with FBI director J. Edgar Hoover, Nixon and Hoover discuss the immediate aftermath of that episode. Hoover thinks Nixon came out ahead because of the disrespectful treatment by Meany and that other labor leaders were embarrassed by Meany's behavior.

You can hear these two conversations at http://www.youtube.com/watch?v=NtMaDbqmsuY.

So what do we learn from the taped conversations? Of course, they are interesting from an historical viewpoint, particularly with regard to implementation of the Nixon wage-price controls program. In addition, the focus of the President on labor union personalities illustrates the thinking of that era on how the wage-price mechanism worked. The notion was that influencing the behavior of a few key individuals could noticeably affect inflation.

There is also a lesson on contrasts; then vs. now. Unions in 2012 may still play an important role in politics, but few would think of them as significant players nowadays in the overall inflation process. Note that there was a greater consensus across party lines in the 1960s and early 1970s on economic policy than there is today. Nixon's wage-price controls and the Kennedy-Johnson wage-price guideposts developed out of the same thinking, even though the Nixon controls went further by being mandatory. If there is any consensus today that remains from the earlier period, it is mainly that economic trends have something to do with election results.

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George Shultz and President Nixon