Mitchell's Musings 8-20-12: Forgotten Anniversary

Daniel J.B. Mitchell

An anniversary occurred last week that no one recalled. On August 15, 1971, President Nixon made a televised speech to announce two major changes in economic policy. On the domestic side, he imposed wage-price controls. [http://www.youtube.com/watch?v=Wv4gpyfLF3s] On the international side, he ended the Bretton Woods fixed exchange rate system. [http://www.youtube.com/watch?v=iRzr1QU6K1o] This musing focuses on the domestic component. My purpose is historical; the world is very different today. Sometimes it is useful to look back and appreciate the contrast.

Wage-price interventions by the federal government of the type implemented forty-one years ago were not a new idea back then. They had been imposed during World War II and the Korean War and, of course, in 1971, the Vietnam War was still ongoing. However, the mandatory controls imposed by Nixon were more closely related to the Kennedy-Johnson voluntary wage-price guidelines and to European "incomes policies" than to the earlier wartime programs. The idea was that inflation could be seen – at least in part – as an administered wage-price setting process rather than as the textbook tale of "too much money chasing too few goods." Wages were pushed up by "Big Labor" (labor unions in "key" industries) and then oligopolistic firms would pass through the increases to consumers. The price increases would set in motion another round of wage increases.

A more nuanced version of this "wage-push" story is that even if Big Labor had not set inflation going initially, i.e., if inflation started as a "demand-pull" story, the administered wage-price mechanism would impede reducing that inflation because of long-term union contracts with built in inflation expectations. Inflation could eventually be reduced by reducing aggregate demand and producing a recession. But that road would be long and painful unless there was some form of direct intervention in union contract setting and price markups.

After the Korean War ended, the Eisenhower administration dismantled the wartime wage-price controls it had inherited and eschewed further direct intervention. But it did sometimes issue vague statements about the need for wage increases to be limited to productivity increases for price stability. The incoming Kennedy administration was more interventionist and, over time, formulated a program based on the wage-productivity nexus, albeit a voluntary one. However, although the program was voluntary, the fact that the President was pushing it publicly made it difficult to ignore. There was a famous confrontation in which Kennedy denounced the steel industry for raising prices, and won a temporary price rollback, after his administration had achieved what it viewed as a modest wage settlement by the Steelworkers union. [http://www.youtube.com/watch?v=aAVAJ6mwBVE]

The focus on administered wage-price setting and Big Labor seems odd now when private sector unionization is around 7%. But at the time, that ratio was about one fourth (although declining) and much higher in certain sectors such as heavy manufacturing and transportation seen as vital to the economy. The wage-price controls program - which ran from 1971 until 1974 in various phases - became intertwined in the political relationship between the Nixon administration and organized labor.

Nixon's initial TV announcement imposed a 90-day wage-price freeze – "Phase I" - during which a more elaborate and flexible program was to be set up. What emerged in mid-November was Phase II: a Pay Board (for wages), a Price Commission, and an umbrella Cost of Living Council headed by the Secretary of the Treasury, first John Connally and then George Shultz. The Pay Board was tripartite and consisted originally of five union, five management, and five neutral representatives.[1] Eventually, the AFL-CIO unions on the Pay Board walked out in protest but the then-unaffiliated Teamsters remained and the Board was reconfigured to have the one union representative and one management representative plus the neutrals. Phase II continued as the most extensive period of the Nixon controls.[2]

The Teamsters generally supported the Nixon administration. The union's titular head, Jimmy Hoffa, was in prison on corruption charges until pardoned by Nixon with the stipulation that he could not become re-involved with the union. That stipulation allowed the acting union president, Frank Fitzsimmons, to become the formal head of the Teamsters.

- -

Fitzsimmons of the Teamsters and Nixon in 1973

- -

Although the AFL-CIO had walked out of the Pay Board as the 1972 presidential election approached, the federation had an unusually-strained relationship with the Democrats at the time, largely because of disagreements concerning the Vietnam War. The Democrats had increasingly been taken over at the national level by anti-war elements and ultimately nominated anti-war Senator George McGovern as their presidential candidate in 1972. As a result, the AFL-CIO executive board did not endorse McGovern (or Nixon), although individual unions did back McGovern. Some union officials within the

[1] Full disclosure: The author was chief economist of the Pay Board.

[2] Although the emphasis of the Pay Board was on the large "key" wage settlements, even the very small ones fell under the controls. My favorite illustration of the smaller "Tier III" wage cases is one of a group of Kosher slaughterers in a Midwest meatpacking plant posted at http://issuu.com/danieljbmitchell/docs/pay_bd_case_dubuque_packing?mode=window&backgroundColor=%23222222

AFL-CIO went for Nixon, notably Peter Brennan who came out of New York City's building trades - and who was appointed by Nixon as Secretary of Labor in 1973.[3]

Despite the Nixon administration's relationship with the Teamsters, there was one area in which the two were at odds. At the time, well before deregulation of the trucking industry, major trucking firms were unionized and under a master contract with the Teamsters. Other major transportation sectors – rail, longshore, and to some degree airlines – were also seen as particularly vulnerable to labor disputes that could have a major negative effect on the economy. Indeed, there were two longshore disputes which triggered presidential intervention during the Nixon years.

Existing labor law under the Taft-Hartley Act and the Railway Labor Act (railroads and airlines) gave only limited authority for federal intervention in major labor disputes. Limited, one-time "cooling off" periods could be imposed. But it was argued that such *de facto* extensions of the time for bargaining had little effect on reaching a settlement since the parties simply built the intervention period into their negotiating timetable. One solution to this problem that was advocated at the time was the "choice-of-procedures" approach, an approach about which George Shultz, in his earlier academic days, had written.[4] Shultz was influential in Nixon labor policy; he had been Secretary of Labor before moving to Treasury and maintained a good relationship with AFL-CIO president George Meany.[5] The choice-of-procedures approach had been written into the proposed "Crippling Strikes Prevention Act," a bill carried by Republican Senator Robert Packwood for the Nixon administration that applied to transportation.

Under choice-of-procedures, the President would be given alternative forms of intervention to select in emergency transportation disputes. The idea was that the parties could not be sure which approach would be chosen and so could not build any one approach into their bargaining timetable or expectations. In the proposed bill, the President could extend the cooling off period, could mandate partial operation of the industry for health and safety reasons, or could impose compulsory arbitration of the "final-offer" variety. Final-offer arbitration, found today in arbitration decisions on individual Major League Baseball salaries, requires the arbitrator to pick either the labor or the management offer and not some in-between compromise. The theory is that the parties under final offer will compete to be the most "reasonable" in the eyes of the arbitrator and may thus converge to a settlement on their own.

[3] Nixon was not averse to having some high-profile Democrats in his administration. Among them were former Texas governor John Connally – mentioned earlier in the text - as Secretary of the Treasury (before Shultz) and domestic advisor Daniel Patrick Moynihan (later Ambassador to India). It might be noted that the Eisenhower administration at one point had a union head as Secretary of Labor.

[4] George P. Schultz, "The Massachusetts Choice-of-Procedures Approach to Emergency Disputes," *Industrial and Labor Relations Review*, Volume 10, issue 3, 1957, pp. 359-374.

[5] Between the Labor and Treasury posts, Shultz headed the Office of Management and Budget.

The Teamsters were adamantly opposed to the Packwood bill, a political complication for the Nixon administration which valued the union's support. Other unions were also opposed to the bill. During the summer of 1972, the Nixon administration dropped its support for the bill, apparently without conferring with Packwood in advance. Packwood then complained publicly about the sudden reversal, embarrassing the administration which wanted to portray the reversal as simply the result of not having sufficient votes to pass the bill.

Which brings me to the Nixon tapes. President Nixon secretly taped his White House conversations (and, as it turned out, earlier presidents did, too). The Nixon tapes came out as part of the Watergate scandal that ultimately forced his resignation in 1974. Tapes that have been released tend to be those involving the Watergate affair or other major policy issues. However, the National Archives has been processing all of the tapes and trying to index them. Most tapes have nothing to do with Watergate.

I have found reference to the Nixon administration's relation with organized labor, the Teamsters, and the Packwood bill in two of the tapes that have been released. The actual tapes record comings and goings and various topics discussed in the course of a day and are quite disjointed. There also are long pauses of silence or background noise and the audio quality is variable. Occasionally certain personal references are edited out (a tone is heard) by the National Archives staff.

To give a sense of the importance in 1972 of unions in the political as well as the economic spheres, I have posted three conversations on YouTube from July 21, 1972. In the first, there is discussion of good economic news that has just been released, low inflation and strong real growth and its political implication. The voice discussing the news with Nixon may be Shultz; the Archives' description is unclear. The conversation moves from the good economic news to the non-endorsement of McGovern by the AFL-CIO hierarchy, Teamsters support of Nixon, and complaints about how the press has reported these developments.

The other two conversations deal with the Packwood bill. There is discussion about the validity of the White House position that the bill was being dropped because of lack of votes in Congress. And the strong opposition of the Teamsters to the Packwood bill is noted. Nixon is frustrated with Packwood going public because the White House version of dropping the bill – not enough votes in Congress – would have allowed the administration to blame the Democrats in Congress for the reversal. [http://www.youtube.com/watch?v=20JVl3TDbRc]

So what should you take away from this musing on the past? Maybe nothing more than that the economic and political scene is very different today from what it was four decades ago. And maybe that's enough of a lesson to learn.