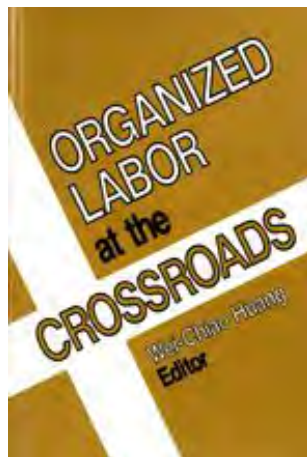


Upjohn Institute Press

---

## Organized Labor's Political Agenda: An Economist's Evaluation

George E. Johnson  
*University of Michigan*



Chapter 4 (pp. 63-89) in:

**Organized Labor at the Crossroads**

Wei-Chiao Huang, ed.

Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1989

DOI: 10.17848/9780880995412.ch4

## 4

# Organized Labor's Political Agenda

## An Economist's Evaluation

George E. Johnson

*The University of Michigan*

This paper is a critical analysis of organized labor's political agenda in the United States. What do they want, why do they want it, and, from the point of view of economic analysis, what would happen if they got it?

There are three reasons why I consider this an interesting and relatively important topic to consider at the present time (late 1987).

(1) A great deal of organized labor's ability to wield influence in collective bargaining is derived from public policy, especially the legal environment. At times in U.S. history, unionism has been discouraged; for a brief period (1935 to 1948), it was encouraged as a positive force for both economic recovery and social justice. For the past 40 years, it has been more or less tolerated (more during some years and less in others, for example now). If organized labor is to reverse its historic slide (from representation of about 33 percent of nonagricultural employment in 1955 to approximately 17 percent in 1986), public policy will have to switch back to the encouragement mode of the Depression/WW II years. Indeed, it would have to shift much more even than organized labor advocates in its public positions, discussed below.

(2) Organized labor still represents the largest special single-interest bloc in the Democratic Party. If the Democrats regain the White House in the 1988 election—which, unforeseeable scandals aside, depends to a very large extent on whether or not an economic recession breaks out by the end of the summer of 1988—a large part of labor's political agenda will be enacted in one form or another. Even if the Republicans hold on to the presidency, it is likely that the new president will be

more moderate (a Bush or a Dole rather than a Kemp or a Robertson) than the Reagan group and value some amount of accommodation with labor. It is thus likely that "16th Street" (the D.C. euphemism for the AFL-CIO, referring to the site of their headquarters) will fare much better in the post-Reagan era than it has thus far in the 1980s.

(3) Organized labor has, despite its diminished political influence, been taking very clear positions on a number of important economic and social problems. Its positions are, indeed, rather refreshing in their forthrightness compared to the tendency of most presidential candidates (from both parties) to obscure and waffle in order to be as inoffensive as possible. Labor's positions on what we should do about trade, taxes and government spending, minimum wages, child care, and a host of other issues are extremely clear. If nothing else, a discussion of their agenda is a good excuse to deal with many important problems.

These issues are relatively controversial, and one might well ask about my underlying biases. (For example, when one picks up a newspaper in a strange city, it is best to read the editorial page first so that one is aware of the possible slant of the news stories.) For what it is worth, I am a political independent who supports Republican, Democratic, and Independent candidates with about equal frequency; the distinguishing characteristic of my choices is that they usually lose. I have worked in Washington on two occasions (once under each party) as a technical economist dealing with labor market policies. As a rather conventional economist, I have a built-in conservatism in favor of market outcomes and a skepticism (reinforced from observation of the government in action) of political intervention in the economy. On the other hand, I have an inherent sympathy for the underdog (how could, for example, anyone not root for the Cubs over the Mets?), and I perceive that there are many serious problems in the country that simply will not be solved without intelligent government intervention. Thus, I approach this critique of organized labor's political agenda from the point of view of an economist from the middle of the U.S. political spectrum. There are biases, but not the usual kind.

## **Background: The Current Economic Situation**

Before considering labor's political agenda, it is useful to clarify some background issues. What is going on with the U.S. economy, and what are the potential economic effects of unions?

First, the most startling fact about the recent behavior of the U.S. economy is the fact that we have become almost a stagnant economy. A consistent feature of the U.S. economy (and all other modern economies) is that there was consistent per capita economic growth from the time we started industrialization into the early 1970s. This per capita growth was reflected in a real wage rate (dollars per hour divided by an index of the price level) that grew at an average annual rate of between 1.5 and 2.0 percent. This means that a worker in any time period has between 55 to 80 percent more purchasing power than an equivalent worker 30 years previously; he/she had to spend only half to two-thirds as much time at work to buy a pair of shoes or a pound of cheese. "Progress" was inexorable.

During the first 25 years after World War II this pace of improvement in the general standard of living continued. Real compensation per hour (including fringe benefits and employer contributions to social insurance) grew at an abnormally high rate of 2.64 percent. The average real nonagricultural wage of nonsupervisory workers (not including fringes and payroll taxes) grew at a lower but still rather substantial rate. All this ended after 1973 when both indices of real compensation declined through the rest of the decade, and they have recovered only slightly since 1980. What this means is that the average compensation of the typical employee in 1986 was only 3.0 percent higher than in 1973. A simple extrapolation of the performance of that variable from 1947 to 1973 would imply that the typical worker would have been 40.3 percent better off in 1986 than in 1973. Similarly, the average real nonagricultural wage has fallen 10 percent rather than increasing 27 percent as would have been expected on the basis of the 1947-73 experience.

The reasons for this decline in the real wage rate are, I am somewhat embarrassed to admit, not fully understood by economists. Accordingly, it is difficult to tell if we will continue in a condition of stagnation

or will revert to old style per capita growth in the future. (Without going into the gory details, the fact that the decline coincided with the first energy crisis provides a hint about what is going on, but the explanations are not sufficiently comprehensive.) What is relevant for this paper is the implication of the stagnation for social policy. In the pre-1973 period, if group A received an increase in living standards, there was always a "growth dividend" so that group A's gain was not ostensibly at the expense of groups B, C, and D. If, however, the pie per capita (or per worker) is essentially fixed, A can gain only at the expense of some combination of the other groups.

A second important development in the postwar period has been the increasing interdependence of the world economy. In 1965 the ratio of exports to GNP was .061 and the ratio of imports to GNP was .047. By 1986, these figures rose to .089 and .114; in other words, imports became about two-and-a-half times as important during this period. Of greater relevance for the present topic, the ratio of nonagricultural merchandise exports (primarily manufactured goods) to GNP rose from .038 in 1965 to .045 in 1985, but the ratio of nonpetroleum merchandise imports (again primarily manufacturing) to GNP rose from .028 in 1965 to .072 in 1985. These developments, as will be pointed out below and as has been noted in detail by the AFL-CIO, have had a profound effect on the composition of employment in the U.S.

In addition, the markets for both physical and financial capital have become extremely interdependent among the developed, non-communist economies. This means that factories tend to be built where costs are lowest, and, with the enormous improvement of methods of communication and transportation, the principal variable cost is the price of labor. To anticipate, one of the major functions of unionism is to drive up the price of labor, and the AFL-CIO has not been very happy about the "opening up" of the U.S. economy. Another implication of this interdependence among nations is that an individual country (even the biggest one) does not have very much control over the level of its interest rates; the prices of U.S. securities are determined in London, Tokyo, Milan, etc., as well as New York. This renders the use of fiscal policy to stimulate the economy, a tool in which the majority of U.S. economists had much confidence as late as 1968, at best problematical.

What is the function of unions? I think there is fairly broad agreement that the goal of most unions in the U.S. is to improve the wages and working conditions of the workers they represent. Unions in some countries (and some unions in the U.S. a century ago) view their organizations as vehicles for the mobilization of the working class into revolutionary cadres, but U.S. unions are conservative in the sense that they accept the distinction between ownership and employment and work within the capitalist system. Granted, a few unions (there are some current U.S. examples) have a subsidiary goal of the enrichment of the leadership, but the typical union is run more or less representatively (in about the same degree as, say, Congress) in the interests of its membership.

One important aspect of what unions do—some, including me, would argue that this is their most important function—is to provide a voice to individual members. If a worker feels that she has been treated unfairly in terms of work assignment, discipline, dismissal, or whatever, she can appeal to her shop steward who will see that the matter is handled equitably. Unionism in the worlds of Sumner Slichter, provides a system of “industrial jurisprudence” as an alternative to unilateral decisions by representatives of management. Most reasonable observers would agree, I think, that this is a good thing; workers have as much right to equitable treatment by their supervisors as, say, professors do from their dean (for which purpose, in large part, academic tenure was invented).

A second function of unions is to raise the wages (I take the word “wages” to include nonwage compensation) of their members above what they would be in the absence of unionism. What are the efficiency and distributional effects of union success in this regard? It is useful to start from the fact that the sum of payments to all factors of production must equal real GNP ( $Y$ ). A useful disaggregation of “factors of production” includes unionized employment (the value of which is  $N_u$ ), nonunion nonsupervisory employment ( $N_n$ ), other “nonunionizable” labor ( $N_o$ , including most managers and many professional, technical, and lower level supervisory workers), and inputs of capital and other nonlabor factors ( $K$ ). It then follows that

$$Y = W_u * N_u + W_n * N_n + W_o * N_o + R * K,$$

where  $W_u$  is the average union real wage rate,  $W_n$  the wage of non-union nonsupervisory wage,  $W_o$  the wage of relatively skilled labor, and  $R$  the real return on the ownership of a nonlabor input.

In the absence of unionism, the wage for the  $N_u$  jobs would be (more or less) equal to those for the  $N_n$  jobs through the force of labor market competition, or  $W_u = W_n$ . Under unionism, however,  $W_u$  is raised through collective bargaining to some level above  $W_n$ . The traditional story of the economic effects of this is as follows. (i) The higher wage level faced by employers of union labor causes them to cut back employment, and the displaced workers are forced to accept nonunion wages at the lower wage  $W_n$ . This causes an aggregate "inefficiency" that is reflected in a slight decline in  $Y$ . (ii) The loss in wages of those  $N_u$  workers who are forced to accept the lower wage  $W_n$  is equal to the decline in  $Y$ . (iii) The higher value of  $W_u$  means that those unionized workers who are sufficiently fortunate to retain their union jobs will gain. (iv) The increased supply of workers for nonunion jobs caused by the reduction in  $N_u$  following the increase in  $W_u$  means that  $W_n$  will decline below its initial level, and consequently, nonunionized relatively low skilled workers will lose due to the introduction of unionism. (v) Relatively skilled workers will incur a slight reduction in income due to the inefficiency caused by the introduction of unionism, and its value is roughly proportional to the reduction in  $Y$  under (i) above. This loss, however, will be small compared to the loss incurred by the incumbent  $N_u$ 's, for the displaced union workers cannot generally compete for relatively high skilled jobs. (vi) The owners of nonlabor inputs will incur a loss through the reduction in  $R$  that is comparable in proportionate terms to that of the  $N_o$ 's.

The preceding suggests that whatever union members gain in terms of increased compensation, item (iii) in the preceding paragraph, is equal to the losses of workers who are similar but nonunionized, (iv), plus the losses of both relatively skilled workers and the owners of nonlabor inputs, (v) and (vi). Investigation of this question in formal economic models (e.g., Johnson and Mieszkowski) suggests that most of the gains come from losses incurred by nonunion nonsupervisory labor, i.e., the value of (iii) is only slightly greater than the negative of (iv). By this view of the economic effects of unionism, therefore, the gains by union members arise primarily at the expense of similar but nonunionized

labor. Estimation of the size of this transfer is a fairly complicated matter, but I would conjecture that as of 1987 it is between 30 and 60 billion dollars.

From a macroeconomic viewpoint an extremely important aspect of the ability of individual unions to obtain economic gains for their members is the mitigation of competition from lower-wage, nonunion competition. If, for example, a union organizes a few firms in an industry characterized by the free entry of other firms, the unionized firms will face a severe cost disadvantage relative to firms that have been able to resist unions, and, in the long run, the unionized firms may be so unprofitable that their owners decide not to replace depreciated plants and leave the industry. Consequently, unionism generally has been successful in the U.S. in industries in which (a) they are able to organize a large majority of the workers in particular occupations, and (b) there are only a few large firms and entry by new firms is very difficult. In the absence of these conditions, a union faces the prospect that at least a very large proportion of its membership will lose their jobs if the wages of its members are negotiated at a level above the industry norm.

The point will be made and stressed below that much of organized labor's political agenda can be understood in terms of their obvious and understandable desire to mitigate competition from nonunion labor.

### **Labor's Political Agenda**

I now turn to a consideration of labor's specific political agenda with respect to economic policy issues. The discussion will be organized into four groups of issues: (a) policy toward the labor market and the environment of collective bargaining; (b) international trade policy; (c) monetary and fiscal policy; and (d) women in the labor market. I put major emphasis on the current attitudes of labor toward various questions, but where it is especially relevant I consider the historical development of labor's attitude.

The sources of my impression of labor's attitudes consist principally of the following: (i) various issues of the *AFL-CIO News*, a weekly publication that reports and interprets political and economic



developments from the point of view of that organization; (ii) a series of position papers entitled *AFL-CIO Reviews the Issues*, which go into some detail on a wide range of policy issues of the mid-1980s; and (iii) the annual reports of the AFL-CIO to the Congress, in which the AFL-CIO Department of Legislation sets out what the Executive Council of the organization feels the U.S. government ought to be doing.

### *Domestic Labor Market Issues*

There are, of course, literally hundreds of political issues that concern the day-to-day operation of unions: worker safety, pension management, union reporting requirements, the management of the National Labor Relations Board, and so on. I will focus on a few such issues that seem to me to illuminate labor's position with respect to the domestic labor market.

*Davis-Bacon Act (DB)*. The purpose of this law, which was passed in 1931, was to keep wage rates in construction from falling precipitously during the first phase of the Great Depression. It requires any construction project that is financed by federal funds to pay the "prevailing wage" for construction workers in the area. This level is usually interpreted as the negotiated union rate, so DB means essentially that nonunionized construction firms cannot employ their cost advantage (due to a 10–25 percent lower wage level) in bidding on federally-financed projects. It was pointed out above that unions have a difficult time operating in industries that are characterized by a high degree of product competition and the relatively free entry of (non-union) firms. It is clear that a law like DB is very popular to unions in the construction industry, for it assures them access to a large share of the market.

DB is anathema to conservatives who see it as an unwarranted, inefficient governmental intervention in the market. It has also not been popular in the postwar period with liberals who have seen DB as a mechanism for denying black construction workers access to lucrative jobs in construction. It is, in fact, very difficult to defend a law of this sort, unless one puts inordinate weight on the well-being of unionized construction craftsmen. It is an example of a few benefiting at the expense of the many with, as seen in the above analysis of the distribu-

tional effects of union wage gains, the largest cost being incurred by individuals at a lower economic stratum than the beneficiaries.

The retention of DB, however, has been a consistent component of labor's political agenda for decades, and they spend a lot of energy in defeating proposals to weaken it. For example, in 1982 there was an amendment to a bill to provide federal funds to help rebuild infrastructure that would have limited the application of DB to initial highway construction and excluded repair work. This was defeated by a vote of 191-194, no doubt with a bit of lobbying by the relevant unions.

*Minimum Wages.* A second "workers' rights" law that gets a lot of attention from the AFL-CIO is the minimum wage provision of the Fair Labor Standards Act of 1938. The minimum wage has been the subject of periodic battles between conservatives and liberals over the 50 years of its existence. Its value has usually been reset at about 50 percent of the average wage in manufacturing, and over the following few years its value falls relative to other wages and to the price level.

The last increase in the value of the federal minimum wage was in 1981—to \$3.35, its current value. The average manufacturing wage at the time of the last increase was about \$7.63, so the minimum/manufacturing ratio was .44. Since then, however, the average manufacturing wage has risen to about \$10.20 (as of November 1987), so the ratio has fallen to .33. From another perspective, prices have risen about 18 percent since the beginning of 1981, so the real value of the minimum wage has fallen by about 15 percent. Indeed, in large parts of the country the going wage for the relevant lowest skilled jobs (teenagers working as fast food hands and such) is well above \$3.35, so that the federal minimum wage is as irrelevant as if it were set at its 1938 level (25 cents).

The AFL-CIO strongly supports the current Kennedy-Hawkins bill that would raise the minimum to \$3.85 in 1988 and by steps to half the manufacturing wage in 1991. If the minimum were currently equal to half the manufacturing wage, it would be \$5.50 rather than \$3.35 and would be a decidedly not irrelevant level in most labor markets in the country. It should be pointed out that the Reagan administration continues in its opposition to an increase in the minimum, calling instead for a youth sub-minimum differential. I understand that there is general resignation by Republicans to an eventual increase, but its value

will probably be smaller than the Kennedy-Hawkins proposal. (A similar proposal for indexing the minimum to the manufacturing wage, strongly supported by labor, was opposed by the Carter administration and defeated in 1977.)

Most unionists in the U.S. earn a great deal more than \$5.50 per hour, so why is the raising of the minimum wage so important to the AFL-CIO? Part of the reason is their concept of how low-wage labor markets operate. To quote from *AFL-CIO Reviews the Issues*. Report No. 13, July 1987:

Many wages are not set in free and perfectly competitive labor markets. The lowest paid workers in society often suffer from their lack of bargaining power. They are easy targets for exploitation by business, especially when there is a large pool of unemployed seeking work, . . . Some non-market institution or arrangement is often needed, therefore, to prevent such exploitation. Indeed, the notion that the structure of wages should adhere to some underlying standard of fairness is one reason for having a minimum wage in the first place, and for keeping it in line with the general structure of wages.

This is, of course, a very difficult line of argument for a conventional economist to follow. What kind of exploitation? What is a "standard of fairness?" The standard economic analysis of the labor market effects of minimum wages is similar to that of the distributional effects of unionism. If the minimum were raised to \$5.50, some low wage workers would gain (by keeping their higher wage fast food jobs) but others would lose (by having to babysit or cut grass or not work at all). What right does the government have, more conservative economists would go on to argue, to deny employment opportunities to people who are willing to work for \$4.00?

One problem with the standard economic argument is that the empirical evidence about the employment effects of minimum wages is that they are rather small (see Brown, Gilroy, and Kohen 1982). The reason for this may be due to the likelihood that, in periods in which the minimum wage is significant (i.e., nontrivially in excess of the market-clearing wage), there is large noncompliance with the law. A firm that is found in violation of the law for the first time is liable to

pay back wages to its employees, if these employees can be found. That is like establishing a fine for owners of automobiles in parking places with expired meters equal to the price for one hour of parking; people wouldn't bother putting quarters in the meters because the expected value of doing so would be negative. It is interesting to note tht the AFL-CIO has backed legislation that would establish penalties on firms for noncompliance.

A second, probably more important, reason that the AFL-CIO supports a minimum wage legislation is that some of its member unions, e.g., the International Ladies Garment Workers and the Restaurant Workers, are in low-wage industries and are very affected by low-wage competition. A high, well-enforced minimum wage would serve the purpose for these unions as does the Davis-Bacon Act for the construction trades. It would establish a wage floor so that these unions could bargain for higher wages and better working conditions without the fear of being undercut by nonunionized firms in relatively competitive product markets. From the viewpoint of equity, it is difficult to fault this motivation; for example, the wages of textile workers currently average only about \$7 per hour. However, the competitive labor they are trying to price out of their market earns hourly wages of \$4 to \$6 per hour, so the equity case is not clear cut.

*Occupational Disease Notification.* A current example of organized labor's political activity is its strong support of a bill that would require the identification, notification, and medical counseling of workers exposed to a high risk of cancer or other diseases on a current or previous job. Pending legislation would provide federal monitoring of the program at a cost of about \$25 million. The bill is supported by some trade associations and firms (e.g., the Chemical Manufacturers Association and General Electric) but is opposed by other representatives of industry (e.g., the National Association of Manufacturers) and by the Reagan administration.

The position of the Reagan administration on this proposal is interesting. On the one hand, they maintain, the bill is duplicative of existing OSHA regulations and therefore unnecessary; on the other hand, it would create a great deal of unproductive litigation by being a boon-doggle for liability attorneys. Further, says the administration, policies

of this sort should be decided in the course of normal collective bargaining. The AFL-CIO says that because of careless and ignorant past practices by many industries there is going to be a lot of future occupational disease and that this legislation would prevent or minimize the disease.

This is an interesting and subtle problem. Why should the government become involved in a program that could in principle, be negotiated between unions and firms? The answer is that many firms are not unionized and their workers, especially former employees, have no way to compel the firms to provide the relevant, costly information. Assuming that the notification procedures are cost-effective from a social point of view (which may or may not be true, I don't have enough information to tell), it is correct for the government to require participation by all relevant firms and not simply depend on unions and managements to work it out. Nonunion firms would generally not engage in the notification process, and unionized firms that did would be subject to a competitive disadvantage.

Other legislation of this sort that is recent passed or currently under consideration in Congress includes provision of (unpaid) leave time for new parents, mandatory provision by firms of catastrophic health insurance, the prohibition of polygraph tests by employers, and required advance notice by firms of plant closures or significant employment reductions. The Reagan administration has said of all of them "leave it to the collective bargaining process." The reason that labor wants these sorts of provisions codified is that they will apply to all firms, union and nonunion alike and thus will eliminate a competitive disadvantage of unionized firms who agree to them in collective bargaining. An economist would predict that a nonunion firm mandated to pay some benefit that costs  $x$  cents per hour will lower its wage offer (sooner or later) by that  $x$  cents. Thus, the competitive disadvantage of a unionized firm that has negotiated the benefit at a cost of  $x$  cents will not in fact change. The support of these proposals by the AFL-CIO, however, indicates that they are not believers in the economist's conclusion (or maybe they value the sooner more than the later).

### ***International Trade Policy***

In the past few years, the issue about which labor has been the most strident is the flow of imports into the U.S. The headlines of the front-page stories in the *AFL-CIO News* document the horror of lost jobs and wages caused by the increasingly larger importation of shoes, vehicles, steel, military equipment, and all manner of goods.

It was not always like that. In 1958, for example, the AFL-CIO supported the Eisenhower administration's request for an extension of the Reciprocal Trade Agreement and scolded the "protectionists" who did not want lower tariffs. They lauded the Trade Expansion Act of 1962 that gave the President authority to cut tariffs in return for equivalent treatment in other countries. (This was the period in which the European Economic Community was being formed.) They also provided a hint of things to come, however: "The AFL-CIO gave strong support to the Kennedy trade program—but warned that support could turn to opposition unless strong measures were taken to help workers who might lose their jobs and to help industries that might be injured by increased imports."

By 1970, the support had indeed turned to opposition, and the opposition has become much stronger since 1984 when the merchandise trade deficit began its sharp increase to present levels. Their present position can be summarized as follows: (a) the free movement of goods across countries was beneficial to the U.S. when we produced most of what we consumed at home; (b) now, however, many U.S. manufacturing companies are multinational concerns that export American technology and capital to wherever they can yield the highest profit, thus resulting in a severe loss of U.S. jobs; (c) the irresponsible, unregulated behavior of multinationals, along with the irresponsible fiscal policy of the Reagan administration (to be discussed below), has also been a major cause of the disappearance of real wage growth and of the reduction of the "middle class" in the U.S.; and (d) extremely strong, European-style policies are needed in the U.S. to preserve our industrial base.

During 1987, the AFL-CIO has strongly supported the Trade and International Economic Policy Reform Act. The major provision of this bill is that any country whose (nonpetroleum) merchandise trade surplus

with the U.S. exceeds 1.75 times its imports from the U.S. must reduce that surplus by 10 percent per year until either the ratio falls to or below 1.75 or until the U.S. trade deficit falls below 1.5 percent of GNP (it was 4.1 percent of GNP in 1986). The bill also provides for severe penalties to be placed on the importation of goods from countries whose price advantage is derived from, in the AFL-CIO's words, "the denial of the right to freedom of association (in other words, bust unions), the refusal to insure a safe working environment, the exploitation of child labor and other reprehensible practices." The bill (usually referred to as "Gephardt," after its leading sponsor in the House) would also provide specific relief to certain industries such as steel and telecommunications. Another bill, the Textile and Apparel Trade Act of 1987, would increase restrictions on the importation of clothing and shoes. In addition, labor has been a proponent of similar proposals such as domestic content legislation for the auto industry and an opponent of measures such as the Reagan administration's Caribbean Basin Initiative that was an effort to spur economic development in that region by encouraging imports from these nations into the U.S.

Why has organized labor shifted its position on trade so radically over the past 25 years, from putting down opponents of lower tariffs in the U.S. as "protectionists" in the 1950s to denouncing proponents of low tariffs as "slaves to outmoded economic theories" in the 1980s? To understand this question, one has to understand that each worker, whether a union member or not, has the role of a consumer of goods as well as a supplier of services. As a consumer, each worker is clearly better off by being able to purchase foreign goods at lower prices. Any policies like those mentioned above that would raise the price of shoes, autos, VCRs and the like, simply lower the purchasing power of a given value of each person's income. To give a commonly cited example, if some country decides that it wants to sell steel to the U.S. at a price below its domestic cost and make up the losses by taxing its citizens, American consumers gain by roughly the amount of the subsidy provided its steel industry by the foreign government. If, as was the case before the recent nationwide labor strife, wage rates in Korea are 10 to 15 percent of those in the U.S., the American consumer clearly gains from the importation of labor-intensive, low technology goods (like shoes) from

Korea. If the vintners in the Bordeaux region of France are more skilled than their counterparts in the Napa Valley region of California, Yuppies are clearly hurt by an increase in the tariff on Chateau Lafitte Rothschild.

On the other hand, each worker is also a supplier of labor services. Some workers produce goods that are import-sensitive (e.g., autos and shoes). A reduction in the price of imported goods (for whatever reason: increase in the efficiency of foreign suppliers, the granting of government subsidies to export industries in foreign countries, or an increase in the real value of the dollar) lowers the return to the owners of capital (both physical and human) in import-sensitive industries. Thus, although they pay lower prices than they would otherwise for the goods they buy, they receive lower incomes, and, for this subset of Americans, the negative effect of lower incomes outweighs the beneficial effect of lower prices. These people, both the workers in and the owners of shoe factories, would clearly gain by the imposition of tariffs or other trade restrictions on the importation of goods.

A second group of workers is employed in industries whose output is both consumed domestically and exported (e.g., airplanes and wheat). A fall in the price of imports, everything else equal, makes them better off as consumers, but it also increases their incomes by weakening the dollar and increasing the demand for exports. The interest of these workers and that of the owners of firms in export industries is in keeping both U.S. trade restrictions and those in foreign countries as low as possible. For example, if, in response to a domestic content law that said that a certain fraction of each imported automobile had to be produced in the U.S., Japan did the same for the 747s it purchases for Japan Air, Boeing workers in Seattle would be worse off; they would have to pay more for their Toyotas (if they were still available) and would earn lower wages (if they still had them).

A third group of workers is employed in the "nontradable" goods sector (e.g., service and insurance); their interest is ostensibly in lower consumer prices and they are thus hostile to trade restrictions. This is a little tricky, for, as Deardorff and Stern (1979) point out, every worker is also a member of a community. The demand for "nontradables" in an area that is dominated by either an import or an export industry



will be accordingly affected by trade developments. For example, a producer of nontradables in Michigan would probably be helped by the imposition of domestic content legislation; a similar person in Seattle would probably be hurt.

If the potential gains and losses associated with any trade policy are added up for all three groups, aggregate welfare is clearly greatest when trade restrictions are minimized. For example, the value of cheap shoes from Korea outweighs the losses incurred by American shoeworkers. However, this conclusion, a sacred paradigm in economics that goes back to Adam Smith, is based on the explicit assumption that everyone counts the same. In the language of modern benefit-cost analysis, there exists a set of distributional weights that will yield the opposite conclusion, i.e., that free trade is a bad thing. If, for example, one were a 45-year-old shoeworker without skills that were transferable to any other industry, the argument that the sum of the welfare of the rest of the citizenry is increased due to the availability of imported shoes (for \$10 when you can make them for \$40) by more than you lose (the difference between \$18,000 in the shoe factory and \$7500 at the Burger King) is irrelevant. The standard economic argument is also obviously irrelevant to the union that represents the shoeworker (and to those unions that represent workers in the steel, auto, textile and like industries).

Not all unions benefit from protectionism, and, accordingly, not all unions advocate it. A study by Steven Magee (adapted by Dearnorff and Stern 1979) examined the testimony of both labor and management organizations in congressional hearings on trade policy in 1972. There was a tendency for both labor and management groups that represented industries with large positive trade balances in 1967 (e.g., machinery, soybeans, and trucks) to favor freer trade and for those that represented industries with large negative trade balances (e.g., textiles, steel, and cars) to favor a more protectionist policy. If the merchandise trade deficit were approximately zero, the antis and pros would more or less balance out, and representatives of "the public" would tilt the scales toward freer trade. The problem is that in recent years the trade deficit has been very large, and the antis far outweigh the pros. The reason for the increase in the trade deficit is the huge federal government deficits that followed the large tax cuts in 1982, a topic to be discussed in the

following subsection. This had the effect of driving up the dollar and rendering U.S. manufacturing largely noncompetitive in world markets. Whatever its cause, however, the symptom, a flood of inexpensive foreign merchandise, has raised the hackles of American labor.

As an example of how trade unions have been affected by the events of the past 15 years, I calculated the percentage of nonsupervisory workers that were represented by unions in the private nonagricultural sector in 1970 (using two-digit industry categories for manufacturing and one-digit categories for other industries and the Freeman-Medoff collective bargaining coverage numbers). This proportion was .41 in 1970. If the extent of collective bargaining had remained the same in each industry to 1986, this ratio would have fallen to .34. In other words, organized labor would have lost about a sixth of its relative influence in the private, nonagricultural sector due to the shifts in the industrial composition of employment, much of it associated with import penetration. That this has happened does not mean that the U.S. should adopt a more protectionist set of policies, but it does help to understand why the AFL-CIO has become so vehemently opposed to free trade.

In principle, since there are more gainers than losers as a result of free trade, the gainers should be able to buy off the losers from trade so that the whole society is better off. In practice, however, it has proved very difficult to do this. The various programs for trade adjustment assistance have not been very effective, and this has magnified labor's opposition to free trade. The administrative problem stems from an economic problem. If, for example, several GM plants go out of business because of a combination of high wages and incompetent management, surely much of their output would be replaced by the importation of Toyotas and the like. A case could be made that the affected workers are victims of import penetration, but, obviously, that position is arguable. Do we want to put the government in the role of bailing out all companies that fail? What kind of automatic mechanism would provide an efficient and equitable determination of who should or should not receive trade assistance? What do we do about the 45-year-old displaced shoemaker?

These are tough questions, and the AFL-CIO has provided answers to all of them. There are, of course, other points of view. However, it

is clear that the problem is not going to go away in the near future. The U.S. is still a very high wage nation, and the exodus of physical capital and the adoption of much of our technology by other economies will continue. It would, in my opinion, be a serious mistake to follow the route of increased protectionism as have many countries; this would cause a further significant decline in our living standard. The solution lies in (i) solving the problem of the provision of trade adjustment assistance, and (ii) coming to grips with our internal fiscal problem that is the root cause of the trade crisis.

### ***Monetary and Fiscal Policy***

During the 1970s, the AFL-CIO, like most professional economists, turned from unabashed Keynesianism to a much more eclectic stance concerning monetary and fiscal policy. Gone are the days when sensible people feel that the government can “control” the economy through the use of fiscal policy, and the statements of organized labor, in their reports to Congress, their issue papers, and in the *AFL-CIO News*, reflect this change of opinion.

A clear statement of their view about monetary policy is contained in the June 1983 *Report on the 97th Congress*. Here (pp. 25–27), they complain about the shift in monetary policy from the control of interest rates toward an “automaticity” in the rate of growth of the money supply. Their solution to the problem of high interest rates (yields on AAA bonds had been in the double-digit range since 1980) was the imposition of credit controls so that the money market would yield a lower interest rate. The problem with this proposal is that, with the increasing mobility of financial capital across international borders, the U.S. has little capacity to control the nominal interest rate in the economy, which tends to equal the world real interest rate plus the rate of inflation in the U.S. If we run huge government deficits, we will also run large trade deficits, and this requires a large influx of foreign capital into the country in order to finance these deficits. If the government attempts to set the nominal interest rate such that our real interest rate is below the world level, wealth-holders in Tokyo, Hong Kong, and elsewhere will turn to other investments and refuse to purchase the U.S. government bonds that are necessary to finance the federal government

deficit. Without severe controls on the export of U.S. financial capital (i.e., making it illegal to ship dollars out of the country, buy foreign financial instruments, etc.), capital markets in the U.S. would break down in the sense that there would be little "money" for mortgages, consumer credit, farm crop loans, etc. Short of nationalizing the banking system and running it at a huge loss, the country would be in a real mess. Thus, the AFL-CIO proposal for artificially driving down the rate of interest is either ill-informed or irresponsible.

The preceding paragraph also brings out the root of the trade problem facing American labor. The Reagan administration decided in 1983 to cut tax rates very significantly without corresponding cuts in government expenditures. These tax cuts were supposed to induce individuals to work longer and harder and consumers to save more (thus adding to the capital stock) so that the tax base would increase sufficiently for tax revenues to fall by very little or, perhaps, increase. This was, of course, nonsense, for the question of the incentive effects of after-tax wages and rates of return on labor supply and investment had been very thoroughly researched and we knew that the tax cuts would reduce revenues more or less proportionately. Thus, the government deficit increased to the \$150–200 billion range on a permanent (or "structural") basis. In an economy with open trading of financial assets, this had to be accompanied by a decline in net exports on roughly a one-to-one basis. Our government deficits were financed by selling assets (government bonds, common stocks, Waikiki Beach, and so on) to foreigners. Further, the fall in net exports means that exports decline and imports increase with the subsequent strengthening of the dollar relative to foreign currencies. This is the background to the foreign trade problem that was discussed in detail in the preceding subsection.

So what are we going to do about it? Clearly a restrictive trade policy (like the Gephardt bill discussed above) only attacks a symptom of the problem, not the cause. (It would ultimately strengthen the dollar more and reduce both exports and imports by roughly equal amounts.) To solve the trade problem we must bring about a significant reduction in the government deficit through some combination of increases in taxes or decreases in government spending. The Democrats and the AFL-CIO favor the former; the Reagan administration favors the latter. The

reasons for labor's support of higher taxes rather than cuts in government spending are spelled out in their report "Infrastructure: Backbone of the Economy" (November 1986). Here they take a very long-sighted and, in my view, reasonable approach. Investment in infrastructure (airports, highways, bridges, urban transit, railroads, water resources, recreational facilities, wastewater treatment, and the like) has seriously declined as a fraction of GNP (from 3.1 percent in 1968 to 2.4 in 1985). To a large extent, this is a federal responsibility, for the benefits of many of these facilities cross the boundaries of state and municipal governments so that without federal direction there will be consistent underinvestment in them. Thus, a policy of cutting taxes significantly and of removing the federal government from the nondefense sphere of the economy (the Reagan administration policy of the 1980s) is, to say the least, suboptimal. In the AFL-CIO's words, "Skimping on infrastructure to cut the federal deficit is a short-run expediency that will constrain growth and living standards in the future. The far wiser course is to raise the necessary revenue and develop appropriate spending priorities that will assure sufficient resources for public investment and help overcome the economic stagnation and high unemployment that have plagued the United States for many years." (If one put a period after "public investment," no reasonable person could argue with this statement. The probable implications of the rest of that sentence [Davis-Bacon wages, targeting to areas of high unemployment, etc.] are subject to controversy.)

At present, the federal tax system for individual income is characterized by a 15 percent rate up to about \$40,000 of taxable income and a marginal rate of 28 percent thereafter. Eight years ago the maximum marginal tax rate was 50 percent, and at some times during the postwar period it was as high as 70 percent. The corporate profits tax rate is now 34 percent, as contrasted to the pre-1982 rate of 50 percent. It is unlikely that there will be a drastic overhaul of the tax system during the next decade, for Congress just completed that (painful) process in 1986. Thus, additional revenues probably must be raised by adjusting the parameters of the present system. One way would be to raise the existing rates by a constant proportion (for example, the lower rate by a third to 20 percent and the higher rate to 40 percent, the profits rate to 45 percent). A second way would be to raise the lower rate and leave

the upper rate and the profits rate unchanged, which would mean that all new tax revenues are generated from the less well-off segment of the population. The AFL-CIO, somewhat predictably, favors the third possibility (leaving the 15 percent rate constant but increasing both the higher rate on personal income and the profits rate to 38.5 percent).

On an issue like this there is no right way or no wrong way to raise tax rates. Resolution of this issue rests on a value judgment (i.e., it is a political decision). Where one comes out generally depends on where one is in the income distribution, although factors such as altruism also come to play. It is interesting to note that the typical union member is above the middle of the income distribution and, under the current tax system, would be in the higher marginal bracket. It is not entirely self interest, therefore, that motivates labor with respect to tax policy. The notion of "equity" obviously plays a significant role. This is in contrast to the tax policy of the Reagan administration, which was designed mainly to cut the taxes of the upper third of the income distribution on the (obviously bogus) grounds that this would so increase incentives that tax collections would rise.

A final aspect of monetary and fiscal policy that was very important to the AFL-CIO in the 1970s is compliance with the Humphrey-Hawkins Full Employment and Balanced Growth Act of 1978. This legislation, which was enacted largely because of the strong support of the AFL-CIO, made achievement of the goal of a 4 percent unemployment rate (by 1985) the law of the land. This goal is (the present tense is used because the Humphrey-Hawkins Act is still the law) to be achieved without increasing inflation or upsetting the U.S. trade balance, and this is to be accomplished by certain "structural measures" such as the government provision of job training and public service jobs. The original legislation called for expansion of public employment (at "prevailing wages") until the unemployment rate reached 4 percent, but in the final version the only mandated activity was for the President to reveal how the goals of the Humphrey-Hawkins Act were going to be achieved. (The last time I saw compliance with the law was in the 1983 *Economic Report of the President*, which called for the establishment of a youth subminimum wage and for reductions in unemployment insurance so as to reduce the "natural rate" of unemployment.)

This law was passed by Congress and signed by President Carter as a symbolic act to appeal to labor (and to blacks, who suffer most from unemployment); there is no way that any set of structural policies could achieve its objectives. It is interesting, however, because it indicates the underlying view of the AFL-CIO toward macroeconomic issues. Further, if the conditions for a renaissance of labor political influence emerge in 1989, more will be heard of the provisions of the Humphrey-Hawkins Act.

### ***Women in the Labor Market***

An interesting aspect of organized labor's political agenda is its stance toward issues that affect women's role in the labor market. A thorough discussion of this is set out in the AFL-CIO pamphlet "Work and Family: Essentials of a Decent Life (What is Really 'Pro-Family?)," which was published in February 1986. This statement, which covers a wide range of topics, might be considered labor's reply to the right wing "pro-family" point of view, although it does not address the standard items of the right wing agenda (prohibition of abortion, prayer in public schools, etc.). Instead, it argues for a series of measures that would, in labor's view, make the U.S. a better place for families in general and women workers in particular.

The first set of policies advocated by the AFL-CIO to promote the quality of family life are the standard ones, some of which have been discussed above in other contexts. These include the achievement of full employment under Humphrey-Hawkins, an increase in the minimum wage, a mandatory reduction in the standard workweek (by requiring employers to begin paying overtime wages at 35 rather than 40 hours), increasing the federal government role in guaranteeing safety on the job (by increasing funding of the Occupational Health and Safety Administration), and increases in payments to the unemployed.

Recognizing the ever-increasing importance of women in the U.S. labor force (and in unions), they also advocate a number of other policies designed to be beneficial to women in the labor market. One major policy proposal is increased government funding of child care centers. Noting that the cost of caring for children during working hours makes participation in the labor market an unprofitable option for many women,

it is taken as obvious that society would benefit from subsidization of child care. From an economic point of view, however, it is not obvious that the social benefits of such a subsidy would outweigh the costs. The outcome of a formal analysis of this question would rest on the question of the degree to which there are "increasing returns to scale" in the child care process. That we should allocate x billions of dollars of public resources to the provision of child care, however, is certainly a clearly stated point of view.

Another interesting proposal discussed in this position paper concerns the earnings of women relative to men. One of the more severe social problems facing the U.S. is the fact that, on average, the hourly wage rate of employed women is 35 percent less than that of men. (Average earnings per year are about 40 percent lower, but this is because women, on average, work fewer hours.) To some extent this is explained by the fact that the average woman in the labor force has less work experience and job tenure than the average man, a phenomenon attributable in large part to career interruptions associated with child birth and rearing. To some other extent, however, the gap between men's and women's wages is explained by the fact that the wage rates associated with "women's jobs" (secretaries, nurses, librarians, etc.) are lower than the wage rates associated with "men's jobs" (truckdrivers, doctors, engineers, etc.) even after adjusting for other attributes. Under current federal law, it is illegal for most employers to pay different wages to men and women with similar productivity on the same job (under the Equal Pay Act of 1962). It is also illegal, under Title VII of the Civil Rights Act of 1964, to discriminate against women in hiring and promotion. It is not illegal to compensate workers in different jobs at different schedules; it is, for example, O.K. for X Incorporated to start its secretaries at \$12,000 moving up to \$16,000 per year while paying wages of \$20,000 to \$26,000 to its truckdrivers, so long as women truckdrivers are compensated according to the same schedule as are men in that job and women applicants for the truckdriving jobs are given an equal opportunity to receive them.

A legislative proposal that will probably receive serious consideration in the early 1990s is designed to eliminate sexual wage disparities arising from differences in wage scales between jobs held predominantly



by men and women. This thrust, alternatively termed "pay equity" or "comparable worth," which has already received support from the AFL-CIO, would require X Incorporated in the above example to justify its wage structure across occupations by the use of job evaluation procedures. By this technique, each of the jobs in the company would be assigned points for various characteristics: intellectual requirements, responsibility, physical demands, and working conditions. The points in the evaluation for each job would be summed (using some set of weights for each characteristic) and the wage structure of the firm readjusted so that average wages were proportional to each job's score. The presumption of proponents of comparable worth is that the resultant wage structure would be purged of sexist biases that yield much higher pay for men's than for women's jobs. (Interestingly, men in predominantly women's jobs do worse relative to men in predominantly men's jobs than do women; see Johnson and Solon 1986.) Accordingly, a significant portion of the male/female wage differential would be eliminated.

Thus far comparable worth legislation has been introduced into a few states and local governments (e.g., Minnesota and San Jose, California), but it has not been found (in the courts) to apply to the private sector, and no X Incorporateds have come forward to offer their companies as laboratories to see how it would work. Its biggest proponent in the labor movement has been AFSCME, a union that has much to gain from it. Without going so far as to label the concept as "looney tunes" or "cockamamie" (the latter applied to it by President Reagan), there are some serious flaws in comparable worth. Ignoring the litigation costs (which would be enormous), its most serious flaw is that it would in practice apply only to a fraction of employers (at most only about 40 percent) in the economy, all levels of government and the large private corporations. Many or most of these employers would find it profitable to contract out for the services of their now "overpriced" women employees, for the temporary employment companies (e.g., Kelly Girl) would be effectively immune to comparable worth because they would make sure they did not have any high-wage male jobs by which women's jobs could be evaluated. This would mean employment effects in which some of the previous holders of women's jobs in the

covered sector would be forced to take wages in the now depressed uncovered sector.

Thus, some holders of women's jobs would gain from the imposition of comparable worth, but others would lose. As with the analysis of the effect of unionism on the average wage rate in the economy, it is not clear whether comparable worth would on balance be a good or a bad thing for the group it is supposed to help.

### Conclusions

I have examined the political positions of organized labor in the U.S. on a number of current issues concerning the economy. Two principal themes appear to emerge.

First, a large number of the AFL-CIO's positions can be explained in terms of the obvious self-interest of blocks of its member unions. The Davis-Bacon Act is designed to help construction unions at the expense of virtually everyone else; minimum wage legislation is (arguably) a device to lower competition to relatively low-wage unions; the turn-about of the union movement with respect to international trade coincided with the shift of the U.S. from a merchandise exporter to importer; and so on. However, this hardly distinguishes labor unions from other special interest groups such as the American Medical Association, the National Turkey Federation (of Reston, VA), or even the American Association of University Professors. The AFL-CIO and its member unions are a fairly small slice of the total forces lobbying for particular treatment in Washington. It is also not unusual that their positions would be stated rather strongly. People fiercely engaged in a battle for some cause or other tend over time to believe their rhetoric. (For example, I suspect that, when arguing against all evidence for the 1982 tax cuts, Secretary of the Treasury Donald Regan actually believed that what they were doing was good for the long-term interests of the country as well as for "the typical guy who earns \$100,000 a year.")

On the other hand, many of the positions of the AFL-CIO do not arise from pure self-interest. I have mentioned their strong stand in favor of a relatively progressive tax hike. Further, they have been very strong

on civil rights issues, even before it was not too unpopular to do so. Passage of comparable worth, although of obvious potential benefit to a few member unions like AFSCME, would harm many other unions representing predominantly male blue-collar workers. I am not privy to the decision process that accompanied support of the proposal, but it is at least possible that their support of the idea is motivated by a sincere concern for the plight of low-paid women workers.

A second theme that has emerged in this investigation of organized labor's political agenda is a growing preference for government intervention in the economy at a micro level. This is most clearly reflected in their position on international trade, but it is also apparent in their positions concerning the federal government role in union-management relations, employer notification concerning plant closings and exposure to toxic substances, immigration, and many other issues. This may reflect a reaction during the 1980s to the Reagan administration's policy of attempting to get the federal government out of virtually every nondefense function of government. It may be a reaction to the buffeting that the majority of unions have taken from the economy since the early 1970s but especially in the 1980s. Whatever the cause, there appears to be a diminished desire by the AFL-CIO to trust the dictates and desires of the market place as opposed to more equitable and secure government solutions. The problem with this approach, in my view, is that their concept of equity often means using the government to get something for their members at the expense of others who are not as well off.

But that is what politics is all about. We have no universally accepted standard of what is fair. The AFL-CIO continues to articulate a consistent set of policies very clearly. I suspect that their positions will soon gain in importance.

## References

- Brown, Charles, Curtis Gilroy and Andrew Kohen. "The Effect of the Minimum Wage on Employment and Unemployment," *Journal of Economic Literature* (June 1982), pp. 487-538.
- Deardorff, Alan and Robert Stern. "American Labor's Stake in International Trade," in *Tariffs, Quotas, and Trade: The Politics of Protectionism*. San Francisco: Institute for Contemporary Studies, 1979, pp. 125-148.
- Johnson, George and Gary Solon. "Estimates of the Direct Effects of Comparable Worth Policy," *American Economic Review* (December 1986), pp. 1117-1125.
- Magee, Steven. "The Welfare Effects of Restrictions on U.S. Trade," *Brookings Papers on Economic Activity* (Washington, DC: Brookings Institution, 1972).