The Great Divergence

BY TIM NOAH

Tim Noah, author of *The Great Divergence: America's Growing Inequality Crisis and What We Can Do About It*,* is one of maybe a dozen working journalists out there who are fine writers and reporters, yet are truly at home in the complexities of economic policy. You may have read his pieces in *Slate* or *The New Republic* (a venerable consistently interesting public policy magazine that doesn't capture as large an audience as it deserves). If not, get ready for an eye-opener: the book offers a splendid, non-technical (and alarming) analysis of the causes of growing income inequality in America. I've chosen to excerpt a chapter that's off the beaten path: Noah's recounting of the story of the decline of Big Labor – specifically, about the direct consequences for blue collar workers and the little explored consequences for the rest of us in terms of both governance and income distribution.

— *Peter Passell*

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With a domestic payroll of roughly 1.4 million, Walmart is the largest private employer in the United States. Not one of these 1.4 million employees belong to a union.

Only once has anybody successfully unionized a Walmart store lying within U.S. borders. That occurred in the winter of 2000, when 10 meat cutters in a Jacksonville, Tex., Walmart Supercenter voted 7-3 to affiliate with Local 540 of the United Food and Commercial Workers International Union. Within days of the vote Walmart announced that it was phasing out meat cutting at all its Supercenters, starting with 180 stores that just happened to include the one in Jacksonville. The Supercenters would instead sell meat that was prewrapped, precut and prelabeled. No meat cutters, no meat cutters union. "This decision was in no way related to the Jacksonville situation," a Walmart spokeswoman explained.

Four years later, Josh Noble, a young employee in the tire and lube department of a Walmart in Loveland, Colo., decided to give it another try. "We got fed up," he told Human Rights Watch. Workers in the tire and lube shop were "not getting lunches or breaks on time," and were being "asked to do jobs that are not part of our job description," he said. And, of course, the pay was lousy. Alicia Sylvia, a single mother of ten-year-old twins who worked with Noble, told *The New York Times* she earned $9 an hour (the average for other large general merchandisers was more like $12) and couldn't afford the company's health insurance (which enrolled fewer than half its employees). Noble contacted the UFCW and invited co-workers to an organizing meeting at a local restaurant.

Six people showed up, including Sylvia, and turned in signed union cards calling for a vote on affiliation. That meeting was held on a Sunday evening in November. The next day three members of Walmart's "labor relations team" arrived from the company's headquarters in Bentonville, Ark., and called a storewide meeting (even though Noble was trying only to organize the tire and lube department). Company videos and PowerPoint presentations were shown.

As Noble later recalled, one message was that "wages could be cut drastically" in collective bargaining. "People were giving me dirty looks," Sylvia remembered. "I'm the only [union supporter] there, and they're all staring at me like I'm the demon person from hell." The labor relations team continued to hold similar meetings until the union vote took place in February. Meanwhile Noble, Sylvia and the other pro-union employees weren't permitted to discuss the union at all while they were on company property.

Noble noticed that store managers were spending more time, in greater numbers, at the tire and lube department, presumably to keep a close watch on the employees there. "They were constantly on your back to try to catch you doing something wrong," Sylvia told Human Rights Watch. "They make you nervous so you mess up."

At one point Sylvia was disciplined for swearing – not exactly a noteworthy occurrence in any auto parts shop. A co-worker

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who was against the union (and wouldn't permit Human Rights Watch to identify him by name) said the flying wedge from Bentonville let him know they were aware he'd applied to the company's management-training program. "I felt I'd be taken care of," he said, "because, without being asked, I'd give them information" about the labor organizers committing petty company infractions, like speaking on a cell phone during working hours. "They had everybody going about it with one another, not just me."

Six new employees were brought into the tire and lube department. A Walmart spokesman told *The New York Times* it was to replace three workers who had left – one of them (a union supporter) was fired, according to Noble – and to improve the department's efficiency. But of course it was a tactic to alter the odds in management's favor. Another favored tactic is to let workers know that all raises must be put on hold for the duration of a union campaign. That never fails to infuriate rank and file, who are told that it's necessitated by the union drive: any raise given during this period might be construed as a bribe.

Sylvia started to get cold feet. "She's just kind of a hard-to-read-type person," Noble can be heard saying in *Wal-Mart: The High Cost of Low Price*, a 2005 documentary that includes footage from the Loveland organizing campaign. "She's definitely into it. She's real strong." We next see Sylvia telling the filmmakers, "I … don't really want to vote, but then I kinda have to." Then we see Noble on the phone with Sylvia: "You're getting freaked out because of what they're saying. They're not gonna know how you voted."

At one point in the union campaign Noble thought he was pretty close to the majority he needed. But when the election was finally held on February 25, 2005, his was the only vote in favor. Seventeen voted against and two didn't vote. Alicia Sylvia was one of the abstainers.

> "It was my day off," she told Human Rights Watch. I went in, and Dave [from the UFCW] calls me to make sure I was going in to vote. Josh [who is epileptic] was in the hospital with a seizure, so he couldn't vote. Demetre had moved. Cody had gone to school. Justine had moved. Brooks had been given a temporary manager position. Rob got scared. I knew that me and Josh were the only ones. Ryan had changed his mind, too.… I walked around the store for an hour. I was so scared. "Should I do it?" I walked around the store. I chickened out. I felt so bad. They wheeled Josh in, and he voted for the union. I felt like I let him down. I was scared of being the only one, so I didn't vote.… But if they're all there and they see you go in, they know you voted. I thought they'd fire me.

Most (possibly all) of the bullying tactics described here are legal. For the UFCW to prove any of them illegal would probably have taken years of litigation, with only the remotest likelihood of a satisfying outcome. The union didn't file suit.

AGE OF INEQUALITY

That's what labor organizing is like three decades into the Great Divergence. The age of inequality has coincided with a dramatic decline in the power of organized labor. Union membership in the United States reached its historic peak in 1979 at about 21 million, representing about 21 percent of the workforce. Today, membership stands at about 15 million and represents about 12 percent.

When you exclude public-employee unions (more than half of all union members today work not for a private company but for the government), union membership has dropped to about 7 percent of the private-sector workforce. Draw one line on a graph charting the decline in union membership, then superimpose a second line charting the decline in middle-class income share (with "middle class" defined broadly as the middle 60 percent), and you will find that the two lines are nearly identical.

The chief purpose of a union is to maximize the income of its members. Since union workers earn, on average, 10 to 30 percent more than non-union workers, and since union members in higher-paying occupations tend to exercise more clout than union members in lower-paying ones, you might think higher union membership would *increase* income inequality. That was, in fact, the consensus among economists before the Great Divergence. But Harvard's Richard Freeman demonstrated in a 1980 paper that at the national level unions' ability to reduce income disparities *among* members outweighed other factors, and therefore their net effect was to *reduce* income inequality. A logical conclusion was that as union membership declined, income inequality would likely grow. And that's what happened.

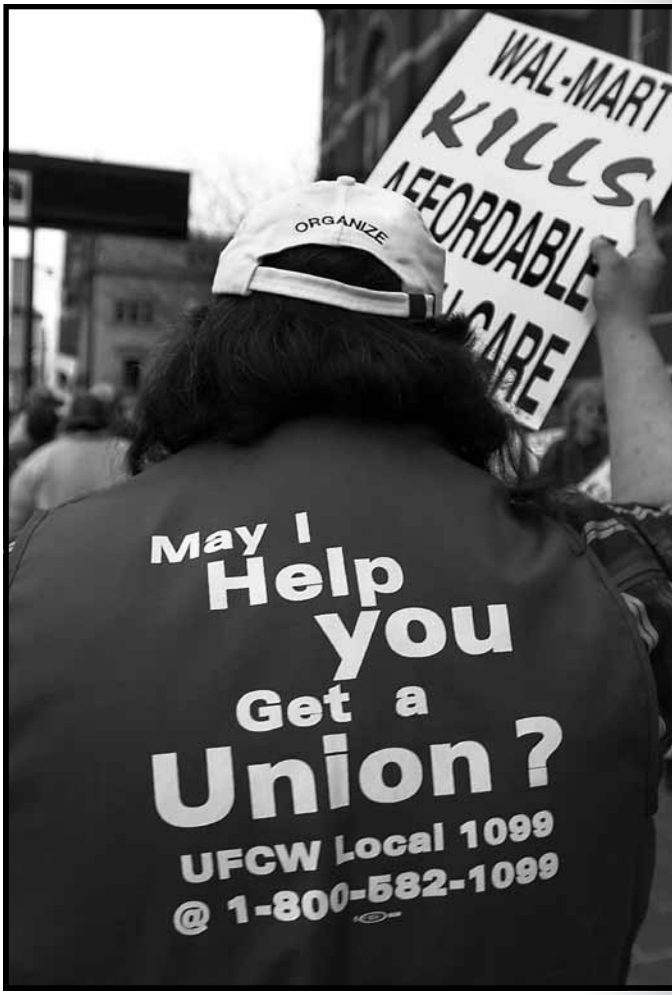
The number of union members started falling in 1979, but as a percentage of the workforce the decline actually began a generation earlier. What labor economists call "union density" peaked in 1954 at 28 percent. If you eliminate from this calculation government workers (who were not yet widely unionized) and if you add to the "union members" category non-union members who were nonetheless covered by union contracts, the union-density peak was closer to 40 percent. After 1954, union density began a slow downward slide that picked up speed in the 1980s as the absolute number of union members began to drop.

The U.C. Berkeley economist David Card calculated in a 2001 paper that the decline in union membership among men explained about 15 to 20 percent of the growth in male income inequality between 1973 and 1993. (Among women – whose incomes have been largely unaffected by the Great Divergence – union membership declined much less precipitously, and its impact, Card concluded, was minimal.)

In 2007, Freeman estimated that the decline of unions explained about 20 percent of the Great Divergence among *all* workers. In 2011 the sociologists Bruce Western of Harvard and Jake Rosenfeld of the University of Washington added in such indirect effects as the threat of unionization on nonunion workers and concluded that one-third of the Great Divergence among men could be attributed to the drop in union membership. "By this measure," they concluded, "the decline of the American labor movement has added as much to men's wage inequality as the relative increase in pay for college graduates."

A precise estimate is hard to calculate because labor's decline was as much cultural as it was quantifiably economic. In their 2007 paper "Inequality and Institutions in 20th Century America," MIT's Frank Levy and Peter Temin describe unions not merely as organizations that strike wage bargains but more broadly as institutions that, before the Great Divergence, played a large role in shaping societal attitudes (a theme later elaborated by Princeton's Paul Krugman and Vanderbilt's Larry Bartels).

A telling example they give arose from a labor-management conference convened by President Harry Truman in November 1945, three months after World War II ended. The conference was intended to hammer out an agreement governing postwar industrial conversion from armaments back to civilian goods. It failed to do so. But looking back on the conference today, Levy and Temin are struck less by its lack of results than by its very existence.



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Business leaders were sitting down with labor leaders to discuss ways to manage not just individual companies but the entire economy. They didn't do it because they wanted to. They did it because they *had* to, a circumstance wholly unimaginable today. The following year, Eric Johnston, president of the U.S. Chamber of Commerce, made a statement whose spirit of conciliation would likely get any current Chamber president fired: "Labor unions are woven into our economic pattern of American life, and collective bargaining is a part of the democratic process. I say recognize this fact not only with our lips but with our hearts." No smelling salts were needed to revive any who heard it. After a century of struggle, unions had won acceptance as an inevitable component to the modern industrial economy. America's labor movement stood at the summit of its power

THE LEADER YOU DIDN'T LEARN ABOUT IN SCHOOL

Walter Reuther was a living embodiment of labor's ascendancy. Had the decades that followed gone a bit differently, his name might be as familiar to today's schoolchildren as that of Martin Luther King Jr. (with whom Reuther stood as King gave his "I Have A Dream" speech). Reuther was the greatest American labor leader of his era, and arguably the greatest of any era. A major force in the United Auto Workers union throughout the war, Reuther became its president in 1946, a position he held until 1970, when he died at 63 in a private plane crash.

Reuther was born in Wheeling, W.Va. His father, Valentine Reuther, was a beer wagon driver who was an active trade unionist and Socialist, and he raised all five of his children to share those values. After his hero, Eugene V. Debs, was convicted of sedition (for giving a speech criticizing U.S. participation in World War I), Valentine took Walter (age 12) and Walter's younger brother Victor (age 7) to the nearby Moundsville Penitentiary to pay their respects. Later Victor recalled it was the only time he ever saw his father weep. Walter dropped out of high school at 16 and apprenticed as a tool-and-die worker.

He lost his big right toe at 17 when a 400-pound die that he and two co-workers were trying to move slipped and crashed down on his foot. At 19, Walter heard that Henry Ford – then phasing out the Model T and preparing to introduce the Model A – was paying tool-and-die workers a princely $1.25 an hour. He made a beeline for Detroit. Victor joined him three years later.

Thriving at Ford, Walter was able to acquire his high school diploma at night and to enroll in college. He even considered law school. But with the advent of the Great Depression, Walter was drawn deeper into the Socialist Party. With Victor, he left Ford to make a political tour of Europe and ended up spending nearly two years in the Soviet Union, where the two brothers took jobs at the Gorky Auto Works and rhapsodized (in naïve tones characteristic of many Socialists during that period) about "the atmosphere of freedom and security." Returning to Detroit in 1935, Walter got himself elected to the executive board of the newly consolidated United Auto Workers and threw himself into the contentious, often violently resisted struggle to unionize the country's three largest automakers: General Motors, Ford and Chrysler.

Looking back a decade later at a series of sit-down strikes that the UAW staged during the late 1930s, the leftist writer Irving Howe and the labor activist B.J. Widick wrote that "not even the bloodiest strikes in the late 19th century posed the issue of 'property rights' versus 'labor rights' so sharply." Management pushed back hard, but in 1937 General Motors and Chrysler let the UAW in. The lone holdout was Henry Ford.

In 1937 Reuther himself, while attempting to distribute UAW leaflets at Ford's River Rouge complex, was punched, thrown on his back, kicked and hurled down a flight of stairs by Ford-hired thugs. Later dubbed the Battle of the Overpass, the attack on Reuther and another UAW official occurred in the presence of news photographers and reporters, some of whom had the film ripped out of their cameras and their notebooks grabbed out of their hands.

The emergence of strong industrial unions


Walter Reuther

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during the 1930s, of which the UAW was but one example, didn't happen by chance. Pressure from below had been building for decades, and the Great Depression stirred additional labor unrest. Then, in 1933, the National Industrial Recovery Act guaranteed the right of employees to join unions. Even though there was little the government could do to protect that right, the law's passage stirred the rank-and-file to action. In 1935 the Wagner Act, often described as labor's Magna Carta, established unions' right to engage in collective bargaining and created the National Labor Relations Board (NLRB) to protect that right.

Reuther's beating two years later received prominent attention at an NLRB hearing on Henry Ford's union-busting tactics, and the NLRB ordered Ford to desist. After Ford resisted the NLRB ruling in the courts, a UAW

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organized strike at the Ford plant in 1941 persuaded the company to surrender. Ford workers voted in the UAW in an NLRB-supervised election, and the union's organization of the big three automakers was complete.

Even before he was elected UAW president in 1946, Reuther became its most powerful voice and the labor movement's most creative thinker. He broke with his union's Communist faction (whose muddled, Moscow-dictated agenda was as much a practical hindrance as the 1939 Nazi-Soviet pact was an ideological affront), more quietly distanced himself from the Socialists, and allied himself with Franklin Roosevelt's Democratic Party. Within the labor movement, that pegged him a right-winger. But at the same time, Reuther pressed for greater union involvement in management decisions not only about what happened on the shop floor but also about how companies positioned themselves in the marketplace. This caused business leaders, jealous of their management prerogatives, to label him a dangerous left-winger.

In retrospect, Reuther looks – at least in the context of a U.S. economy dominated far more than it is today by a few very large industrial corporations – like a pragmatist eager to align his union's interests with those of the larger public. "The working class and the employing class have nothing in common," the Industrial Workers of the World ("the Wobblies") had declared at the time of their founding in 1905. Reuther believed that the working class and the employing class had plenty in common, if only the mulish bosses could be made to listen.

Anticipating by several months Roosevelt's December 1940 call for an "arsenal of democracy," Reuther put forth a plan to pool resources from the entire auto industry into a single production unit to manufacture "500 planes a day." It was a scheme premised, in the words of the Reuther biographer Nelson Lichtenstein, on the idea that "veteran machinists and tool-and-die men had a better overall understanding of industry techniques than did any individual corporate manager," which was almost certainly true.

Reuther's plan had only one drawback, observed Treasury Secretary Henry Morgenthau: it came "from the 'wrong' source." That was enough to scuttle it. General Motors President "Engine" Charlie Wilson was bracingly honest about the reason that Detroit rejected it. "Everyone admits that Reuther is smart," he said, "but this is none of his business … he has no right to talk as if he were vice president of a company."

Reuther offered a similarly bold proposal after V-J Day in August 1945. The government's wartime price controls had decreased take-home pay for autoworkers even as the cost of living had risen 30 percent. Reuther proposed a 30 percent wage increase to allow autoworkers to catch up with prices, but to prevent a wage-price inflationary spiral he said the automakers should do this *without raising automobile prices.*

Reuther believed that the working class and the employing class had plenty in common, if only the mulish bosses could be made to listen.

Reuther had been kicking this idea around since June, but it acquired greater urgency after the Japanese surrender when President Harry Truman issued an executive order permitting wage increases only if they didn't lead to price increases. Once again, the response from management to Reuther's pragmatic bid was that the proposal might have merit (one GM board member circulated a letter saying circumstances justified it) but that the precedent was unacceptable. General Motors, which quickly became Reuther's principal adversary in this fight, took out an ad in *The New York Times* stating, "The idea of ability to pay, *whatever its validity may be* [italics mine], is not applicable to an individual business within an industry as a basis for raising its wages beyond the going rate."

George Romney, chief spokesman for the Automobile Manufacturers Association (also future chairman of American Motors, Michigan governor, presidential aspirant and father of the Massachusetts governor and presidential candidate Mitt Romney) used the occasion to pronounce Reuther "the most dangerous man in Detroit." When the time came for Reuther to negotiate the pay hike/price freeze with GM, he asked that reporters be present. GM vetoed that, so Reuther had transcripts made of the talks and gave them out to anyone who asked. More than 60 years later, they stand as a vivid record of a moment when America briefly debated elevating labor unions to a collaborative role in industrial management, as would occur in Western Europe after the war.

Reuther: But don't you think it is constructive for us to relate our wage question to prices?

Harry Coen (GM): Nobody is doing that but you. You are the fellow that wants to get the publicity out of this whole thing. You want to enhance your personal political position. That is what the whole show is about …

Reuther: If I came in here and said we want 30 percent and we don't care about prices, we don't care about profits, that is your business … then you would say, "Reuther is being a trade unionist and not trying to build himself up politically." But when Reuther comes and there is what you say is an attempt to be a statesman [i.e., advocating positions of greater benefit to the company and the nation than to the union, per se] you think that is bad. I think if I didn't do it that way, it would be bad. I think if we came in here on a selfish basis and said, "We want ours and the world be damned," then you should take our pants off.

Coen: You put a lot of things in my mouth that I haven't said, and you shade the things I have said in the direction of your thinking. None of the other labor leaders have taken the position you are taking. I am on sound ground there.

Reuther: What do you mean when you say that?

Coen: They are asking for a $2 a day increase. That is what the others are asking.

Reuther: They don't care what happens to prices?

Coen: I don't know whether they care or not. They haven't coupled it up with their demand. And I think they are a damn sight smarter than you in this instance.

Failing to reach any resolution, the UAW launched a 113-day strike against GM. *Time* put Reuther on its cover, and *Life* praised the "smart young strategist" (he wasn't even UAW president yet) as someone "who can rise above the bear-pit level of wage-and-hour battling to attack the great problems of the national economy." In the end, UAW workers won a small, symbolic increase but no pledge from GM on prices, and during the three months after the strike's conclusion, automakers raised prices three times. An entirely predictable wage-price spiral ensued.

The solution finally hammered out between Reuther and GM's Wilson in May 1950 was a five-year contract that included cost-of-living adjustments, productivity-based wage increases, health insurance and defined benefit pensions that, in combination, were estimated to raise workers' compensation by 35 percent in inflation-adjusted dollars. Daniel Bell (then a writer for *Fortune* magazine, later a prominent sociologist at Columbia and Harvard) named the agreement, versions of which would be adopted not only by the other automakers but also by Big Steel and other industries (not all of them unionized), the Treaty of Detroit.

Cost-of-living adjustments were still a relative novelty in 1950, and health insurance and pensions had previously been mainly a

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management perk. But in writing about the agreement, Bell focused on the two percent annual productivity increases, or "annual improvement factor." Reuther had failed in his bid to give labor a voice in issues nominally unrelated to the union, but now Detroit was aligning labor and management in another way. When workers increased their productivity, they would have a share in the results. It was, Bell explained, "the most resounding declaration yet made by any big union that the U.S. can grow more prosperous only by producing more."

Labor productivity is the lifeblood of economies, but it's a concept more discussed than understood. Many people believe, erroneously, that it measures the output per dollar invested in man- (or woman-) hours worked. In fact, dollars don't enter into it. It is merely the output per man- (or woman-) hours worked. If one country's productivity rises faster than other countries, it can pay its workers more in salary and benefits and still remain competitive because its workers are, in effect, more valuable. That's what happened under the Treaty of Detroit.

For the UAW, the treaty's benefits were obvious. For GM, which was expanding its postwar production, the benefit was predictability. For five years, Reuther was pledging not to direct UAW workers to strike. It wasn't European-style industrial democracy, not by a long shot. But it was as close as the United States would ever get. The Treaty of Detroit ushered in, observe MIT's Levy and Temin, "a stable period of industrial relations."

From 1950 until 1973, labor and management shared in America's postwar prosperity. The federal government, though not a signatory to the Treaty of Detroit, played a significant role in enforcing it, Levy and Temin emphasize, and not only through the National

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Labor Relations Board. Between 1948 and 1964, the historian Judith Stein points out, every Democratic presidential nominee began his general election campaign with a Labor Day rally in Detroit's Cadillac Square.

When President John Kennedy proposed a tax cut on investment and income, he worried that higher inflation might result. So his Council of Economic Advisers publicized "guideposts" on wages and prices that were followed to some degree; the feared inflation did not occur. Writing about the guideposts a few years later, Kennedy's CEA chairman, Walter Heller, expressed satisfaction that industry was coming to recognize that keeping wages in line with productivity increases still left "ample rewards to capital, as is vividly demonstrated by the doubling of corporate profits after taxes" from 1961 to 1966.

Kennedy persuaded steelworkers to limit wage demands in their 1962 contract with U.S. Steel in order to minimize the risk of inflation. But when U.S. Steel followed up with a 3.5 percent price increase, Kennedy felt betrayed. "My father told me businessmen were all pricks," he told Labor Secretary Arthur Goldberg, "but I didn't really believe he was right until now."

Kennedy readied legislation to freeze steel prices and called a press conference to denounce the company. "At a time when restraint and sacrifice are being asked of every citizen," he said, "the American people will find it hard, as I do, to accept a situation in which a tiny handful of steel executives, whose pursuit of private power and profit exceeds their sense of public responsibility, can show such utter contempt for the interest of 185 million Americans."

The White House phoned reporters to

suggest hostile questions they should pose to U.S. Steel's chairman. Defense Secretary Robert McNamara redirected a multimillion-dollar steel-plate order to build Polaris submarines from U.S. Steel to one of its a smaller competitors. Attorney General Robert Kennedy dispatched the FBI to investigate whether U.S. Steel was colluding with Bethlehem Steel to fix prices (an allegation for which there was precious little evidence).

In the face of all this pressure, U.S. Steel backed down, and so did other steel companies that had decided to match its price increase. According to Levy and Temin, Kennedy's display of muscle "helps to explain why the reduced top tax rate" enacted two years later (it fell from 91 to 77 percent) "produced no surge in either executive compensation or high incomes per se." Fear of attracting comparable attention from President Lyndon Johnson kept corporations from showering the bosses with obscene pay hikes.

Already, though, the White House's appetite for such a fight was diminishing. In 1964 Reuther, under pressure from the CEA to stay within its inflation guideposts, told the White House that he would moderate the UAW's wage demands if President Lyndon Johnson would tell the automakers to keep a lid on prices. Heller thought a bargain was possible, but Johnson, who was busily soliciting campaign contributions from auto executives for that year's presidential election, refused.

Reuther went on strike instead and won a contract that, he told the president defiantly, "bent the hell out of" the CEA guideposts. A tight labor market emboldened other unions to wage similar strikes in other industries, and this, combined with deficit financing of the Vietnam War, created an inflation surge that worsened considerably when oil and food prices spiked in the early 1970s. The tripartite agreement among management, labor and the government to maintain a balance between wages and prices was breaking down.

"The formula wasn't really designed to handle the kind of inflation that broke out in the 1970s," Levy explained to me. "It was a terrible setup for an increasingly globalized world." Foreign competitors were pricing U.S.-made automobiles and steel out of the market. Unemployment rose and incomes began to stagnate. Most calamitously, productivity, the bedrock on which the Treaty of Detroit had been built, fell.

PRODUCTIVITY SHIFTS

Productivity had grown by 3 percent annually between 1947 and 1973. Between 1973 and 1995 it was half that, for reasons economists still can't really explain. Productivity growth in the United States would resume its upward climb in the 1980s and especially during the 1990s and the aughts. Between 1995 and 2008, average annual productivity growth was just a whisker short of the post-World-War-II rate. A major reason for this climb was a technology-driven surge in output per worker in the retail industry, which to a great extent reflected Walmart's pioneering use of computer technology. The consulting firm McKinsey & Company called it "the Walmart effect."

But during this recent era of rising productivity, average hourly income did not resume growing in tandem. A gap between the two opened up starting in the 1980s and has been growing ever since. The sad story of Josh Noble's failed union drive in Loveland, Colo., suggests that this was (at least in part) another "Walmart effect."

The structure of the economy has changed since the late 1970s, with manufacturing jobs giving way to service jobs. Obviously that contributed to labor's decline, since manufacturers are more likely to be unionized. But it didn't contribute as much as is often supposed.

The Trinity University economist Barry Hirsch calculated in a 2007 paper that if the *only* change between 1983 and 2002 had been the shift in where the jobs were, private-sector union density would have fallen by less than two percentage points. Instead, it fell by eight.

Many of the calamitous economic conditions of the 1970s were not unique to the United States. The oil shocks affected all industrialized nations, similar productivity declines were observed elsewhere, and the very nature of global competition is that it's, well, global. But in other industrialized nations, the effects were quite different.

Union density actually increased in most industrialized countries during the 1970s even as it was decreasing in the United States. (Since then union density has tended to decrease in other industrialized countries, but not nearly so dramatically as in the United States.) And in these other countries, once productivity resumed its upward climb, real wages resumed climbing at about the same rate. Richard Freeman estimated that if real wages had followed the same pattern in the United States, average earnings for industrial workers would, in 2005, have been $25 per hour. But they didn't, and hourly earnings were instead $16 per hour.

In other countries, the unfavorable economic conditions of the 1970s caused pain, but labor unions rode them out. Only in the United States did these conditions bring down big labor like a house of cards. Part of the reason was that management and labor were more adversarial in the United States than elsewhere. Mechanisms for compromise, either public or private, were few, and there was little tradition of joint economic stewardship. The resulting conflict made old-line industrial unions appear, to much of the public, maddeningly intransigent as the Rust Belt fell into steep decline. Some unions, like the Teamsters, were blatantly corrupt, with extensive ties to organized crime. That didn't help labor's image either.

But an underlying reason for labor intransigence was that Reuther was never able to build on the Treaty of Detroit sufficiently to establish a partnership between labor, management and government comparable to what Western Europe achieved after the war. American management wouldn't allow it. It was too socialistic, too impertinent. When a corporate leader believed that Reuther had an excellent idea about how to run his business, he still felt compelled to reject it, on principle.

LABOR'S LAST STAND

Another reason unions fell fast and hard was that the Treaty of Detroit, formidable though it was when constructed in 1950, lay atop the fault line of an antilabor law whose passage big labor had been unable to prevent three years earlier. If the 1935 Wagner Act was labor's Magna Carta, the Taft-Hartley Act was its Little Bighorn. In 1946, the war's end, Roosevelt's death, Truman's unpopularity as his successor, and runaway postwar inflation allowed the Republicans to regain the House and Senate for the first time since 1930. The new Congress wasted little time passing a bill to rein in what the Republicans (and more than a few southern Democrats) judged an out-of-control labor movement.

Declaring Taft-Hartley "a shocking piece of legislation" that was "deliberately designed to weaken labor unions," Truman vetoed it. But Congress promptly overrode the veto, and Taft-Hartley became law in June 1947.

The momentum enjoyed by the labor movement and the remarkable job-creating postwar prosperity that would emerge within a few years (and on which big labor would come to depend) obscured for a couple of decades what a powerful weapon Taft-Hartley placed in management's hands. "After 10 years of experience" with the law, the University of Buffalo economist Joseph Shister wrote in 1958, "this controversial piece of legislation can be viewed with considerably less emotion." Shister concluded that while the law had made it somewhat more difficult for unions to organize, the power relationship between management and labor was essentially unchanged.

role over other workers (as had, for instance, Reuther when he worked at Ford). This provision acquired greater reach over the years as courts and the NLRB expanded the definition of "supervisor" to encompass a greater number of workers.

Taft-Hartley also gave management much greater control over the NLRB certification process. Previously, only unions had the power to initiate an NLRB-supervised union election, but under Taft-Hartley employers could, too. Why would an employer petition the NLRB for a union election? Purely for strategic reasons: management could improve its chances of defeating the union by scheduling an election well before the union had won sufficient support among the rank and file.

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That judgment was correct for 1958, but it didn't remain so. The law almost immediately halted the phenomenal increase since the advent of the New Deal in the proportion of U.S. workers who belonged to unions. Between 1933 and 1954 union density rose from 7 to 28 percent, but between 1954 and 1973 it declined very gradually to 21 percent. By 1983 it stood at 18 percent, and today it's 12 percent – and remember, these calculations include public-sector union members who were virtually nonexistent in 1931 but represent the majority of all union workers today. Remove those, and private-sector union membership is right back where it was, proportionally, the year Franklin Roosevelt became president. It's as if the New Deal never happened.

What did Taft-Hartley do? For starters, it immediately reduced the proportion of civilian workers protected by the Wagner Act from 56 to 50 percent. This was achieved mainly by eliminating Wagner Act coverage for any workers who performed a supervisory

Taft-Hartley also required any union that lost an NLRB-supervised election to wait a full year before petitioning NLRB for a second election. Under the Wagner Act, the union could petition for the second election within a few months, and if it could demonstrate that membership had increased in the interval, the NLRB would likely allow that election to proceed. Steven Abraham, an industrial relations expert at the State University of New York at Oswego and a former law professor at the University of Northern Iowa, explained in a 1994 article for the *Hofstra Labor & Employment Law Journal* that a union's best chance of succeeding in a follow-up election was to hold the second election sooner rather than later,

while memories were still fresh of an employer's broken promise to shower benefits on workers if they would only (please, God!) vote against unionization.

Taft-Hartley also eliminated so-called card check certification, an alternative to secret-ballot elections that involved the quiet collection of authorization cards from a majority of employees. The disadvantage to unionizing via card check (a method that labor tried and failed to get Congress to revive after President Barack Obama's election in 2008) is that it risks subjecting wavering rank-and-file members to unseemly and perhaps thuggish pressure from union organizers. But the *absence* of card check (as an alternative to an NLRB-supervised election; the method remains legal as a step to *initiate* a union election, as we saw with Josh Noble's organizing effort) has allowed employers to engage in fear-mongering campaigns (and some thuggery of their own against employees who campaign visibly for unionization) prior to union elections.

The formal union elections required under Taft-Hartley can also drown organizing drives in procedure. In his 1991 book *Which Side Are You On?* Thomas Geoghegan, a Chicago-based labor lawyer, complains that Taft-Hartley "required hearings, campaign periods, secret-ballot elections and sometimes more hearings, before a union could be officially recognized."

Taft-Hartley also created the "decertification" election, in which a unionized workforce could choose no longer to belong to its union. (Previously, the workforce could only reject one union in favor of another union.) Decertification elections remained rare for a while, but their number increased steadily over the decades. In the overwhelming majority of these elections, workers voted to scuttle their union.

Under the Wagner Act, unions could engage in "secondary boycotts" aimed not at the employer but at another company that did business with the employer. The Teamsters, for example, often exerted leverage by having truckers refuse to transport products made by the employer's more highly valued clients. Taft-Hartley outlawed secondary boycotts.

Sit-down strikes of the type that won the UAW recognition from Detroit automakers during the 1930s had already been ruled illegal by the Supreme Court, but Taft-Hartley made it easier for employers to fire workers who engaged in such practices. Under the Wagner Act the UAW and many other unions were able to make their workplaces a "closed shop," meaning you couldn't get hired unless you already belonged to the union. Taft-Hartley banned the "closed shop."

Taft-Hartley also outlawed strikes whose purpose was to pressure management into joining employer's associations that bargained with labor unions on an industry-wide basis. And it outlawed "mass picketing," in which the sheer size of a picket line was used to block or intimidate workers from crossing it. This, too, had been a technique widely used in the organizing drives of the 1930s.

Unsurprisingly, after Taft-Hartley's enactment the labor movement won unionization votes less frequently. In 1946 and 1947, the two years prior to the law's taking effect, unions won victories in 80 and 75 percent of NLRB-supervised elections. That dropped to 73 percent in 1948 and 71 percent in 1949. Election victories bumped up to 83 percent in 1950, the year the Treaty of Detroit was signed, but through the rest of the 1950s the percentages dropped steadily downward to 62 percent. By the late 1970s labor was losing more votes to unionize than it won.

In *Which Side Are You On?* Geoghegan argues that Taft-Hartley encouraged employers to threaten workers who want to organize. Employers could hold "captive meetings," bring workers into the office and chew them out for thinking about the union. And Taft-Hartley led to the "union-busting" that started in the late 1960s and continues today. It started when a new "profession" of labor consultants began to convince employers that they could violate the [pro-labor 1935] Wagner Act, fire workers at will, fire them deliberately for exercising their legal rights and *nothing would happen.*

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If the Wagner Act had never had real sanctions, why did managers wait until the passage of Taft-Hartley to violate it with impunity? According to Geoghegan, when they tried to in the 1930s and 1940s labor retaliated by using strong-arm tactics later banned under Taft-Hartley: "mass picketing, secondary strikes, etc." The provisions banning these practices *did* have real sanctions, including hefty fines and possible jail sentences. The best measure of management's impunity in violating labor laws, Harvard's Freeman argues, is the ratio of persons fired (illegally) for union activity divided by the total number of people who vote for union representation. At the time of the Treaty of Detroit it was about 0.5 percent. By the early 1980s it was 4.5 percent. No wonder Alicia Sylvia was too scared to vote for the union in Loveland.

In 1993 Martin Jay Levitt, a "labor relations management consultant" who'd grown disgusted with his trade, published a book titled *Confessions of a Union Buster*. His testimony was eye-opening. Levitt wrote that to discredit a "pusher" (what anti-unionists called a union activist) he had "routinely pried into workers' police records, personnel files, credit histories, medical records and family lives in search of a weakness." If the worker was "impeccable," Levitt would start a false rumor that the activist was gay or cheating on his wife ("a very effective technique, particularly in blue-collar towns"). During one particularly contentious anti-union campaign, Levitt "dispatched a contingent of commandos to scratch up the cars of high-profile pro-company workers." Why *pro*-company workers? So he could blame it on the union.

In the two decades since Levitt published his book, the union-busting industry has stepped out of the shadows. For instance, type preventunion.com into your browser, and you're whisked to the Web site of Russ Brown Associates ("When You Must Prevail"), a consulting firm run by a former NLRB official. RBA promises any client company "a significant discount" in the unlikely event that Brown and his crack team fail to bust whatever union is troubling management's sleep. "The vast majority of our work force was determined to bring in the union," reads a testimonial from an unnamed "major" oil company, "one week before the election the union withdrew thanks to RBA."

The presidency of Ronald Reagan was the first to adopt a public stance that was openly and unapologetically antiunion. In 1981, when the air-traffic controllers' union defied a legal prohibition against going on strike, Reagan fired the entire workforce and replaced it with scab labor. Rather than revile him for it, Congress eventually renamed Washington's National Airport in his honor.

Reagan lent enthusiastic support to Paul Volcker, the Carter-appointed chairman of the Federal Reserve Board, when the Fed's inflation-fighting policies brought on a brutal recession in 1981-82. This recession – until the most recent one the worst since the Great Depression – eliminated so many Rust Belt manufacturing jobs that the proportion of private-sector workers who belonged to unions dropped to 16 percent in 1985, down from 23 percent in 1979. Volcker's actions were necessary to eliminate the inflationary spiral that plagued the United States throughout the 1970s, but Ron Blackwell, chief economist for the AFL-CIO, believes that they ushered in a new era in which the Fed became relatively indifferent to the unemployment rate.

Reagan further clarified where his sympathies lay by appointing Donald Dotson to chair the National Labor Relations Board. Dotson had previously worked as a management-side labor adversary for Wheeling-Pittsburgh Steel, and he believed collective bargaining led to "the destruction of individual freedom." Dotson's NLRB issued a succession of rulings that gave management greater leeway to interrogate and fire union supporters and to make misleading statements during union elections.

It also processed unfair labor practice

claims against management so slowly that the agency ended up with its biggest backlog in history. Reagan helped by cutting the NLRB's budget, "making it difficult," according to the union buster Levitt, "for agents to carry out full, lengthy investigations."

Under Reagan's two terms, the federal minimum wage, which previously had been adjusted upward every year or two, would remain stuck at $3.35 an hour for close to a decade. Similarly, President George W. Bush later let the minimum wage remain at $5.15 (to which it had risen during the presidencies of his father and Bill Clinton) for a few weeks shy of 10 years, by which time its buying power had reached a 51-year low.

Academics may argue about the significance of any one of these decisions. Raising the minimum wage, for instance, reduces income inequality to a degree that some experts judge negligible and others judge substantial. Where Levy and Temin (who lean toward "negligible") and Bartels (who leans toward "substantial") agree is that policies like setting the minimum wage don't occur in a vacuum; they are linked to a host of other government policies likely to have similar effects.

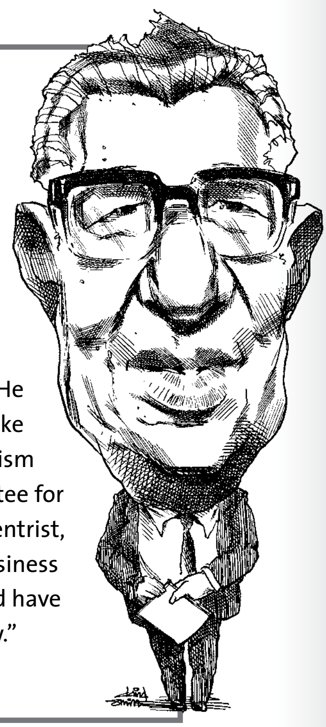
Bartels emphasizes partisan differences and Levy and Temin emphasize ideological ones, but both constitute changes in the way Washington governs. Levy and Temin concede that the ideological shift was influenced by changing circumstance (inflation *did* rise, productivity *did* fall, Rust Belt manufacturers *did* face increased foreign competition, and the structure of the economy *did* change). But they argue that the policies embraced, and the increased income inequality that resulted, were not inevitable. The proof lies in the fact that other industrialized nations faced similar pressures but embraced different policies. Their unions lost members, but they survived. And their incomes never became as unequal as those in the United States.

And the guy on the spine is…

Herbert Stein (1916-1999) may not belong in the same league as superstars like Milton Friedman, Paul Samuelson or James Tobin, but he was a first-rate economist, serving presidents (Richard Nixon and Gerald Ford) who needed all the grounded advice they could get. And did I mention he was the wittiest economist around, as well as the original (anonymous) author of *Slate*'s Dear Prudence advice column?

Stein was a conservative back when it meant something quite different. He was skeptical of intervention in the economy, yet lacked the Savonarola-like conviction of some that all government was bad all the time. His pragmatism was reflected in his 22 years of labor as the chief economist at the Committee for Economic Development, a business-supported group that specialized in centrist, bipartisan policy prescriptions. Among his achievements: convincing business leaders that countercyclical fiscal policy was in their interest. And yes, he did have something to do with Richard Nixon's quip that "we are all Keynesians now."

I miss him. — *Peter Passell*



DAVID SMITH