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Reagan's Victory: Over Labor and Inflation

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1980, the year in which Reagan beat Carter for the Presidency, was marked by a 13.5% inflation rate. This was the highest rate since World War II. Inflation continued at a high 10.4% in 1981, Reagan's first year in office, but the recession of 1981-82 brought the rate down to 6.1% in 1982. During the expansion that began at the end of 1982 the rate of inflation has been 3.2% in 1983, 4.3% in 1984, and 3.6% in 1985. A responsible forecast is that inflation will be in the neighborhood of 1.0% in 1986. This dramatic reduction of the rate of inflation is the major economic succeess of the Reagan administration. It is a striking success because it was accomplished over a period that includes an expansion after a deep recession.

This success in lowering inflation took place while the Federal Government ran huge deficits during a maturing expansion and while the rate of growth of the money supply was greater than that which it had been believed was compatible with a non-inflationary expansion. In the past five years inflation declined in the United States, even though over most of this period conditions that traditionally were believed favorable to inflation ruled. The behavior of prices and wages during the Reagan administration contradicts the conventional wisdom, the orthodox teachings of economists. We have to look beyond the fiscal and monetary variables to understand this success of the Reagan administration.¶ One reason which can be advanced to explain why inflation did not recur with the recovery that began in late 1982 was that unemployment remained high: 9.6% in 1983, 7.5% in 1984, and 7.2% in 1985. Unemployment is forecast to remain above 7.0% in 1986. Unemployment at these levels undoubtedly retards wage demands.

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Another reason for the low inflation was the flood of imports into the United States. During 1979-1985 the United States dollar rose significantly against the currencies of the major manufacturing countries, in good measure because the dollar was the currency in which the O.P.E.C. surplus countries held their accumulated profits. For much of this period even though the United States had a balance of payments deficit the effective dollar block which included Saudi Arabia, had a massive surplus. The flood of imports induced by the high and rising dollar furnished lower priced outputs to the American market and led to the high United States unemployment during recovery. Unemployment and imports are not the full explanation of why inflation was lowered so dramatically.

There is another facet to the decline in the United States's rate of inflation which can best be characterized as a change in the wage setting arrangements. In the immediate post war period the American trade union movement was both new and strong. Even though some 1/3 of the labor force was in trade unions, the leadership of the unions was aware of their dependence upon government support. The leadership and the membership largely remembered the pre-war organizing struggles and the depression that had destroyed what little union strength there had been in the 1920's. As a result, wage demands and bargaining agreements were such that unit labor costs did not rise rapidly; in the forties, fifties and sixties unionized labor was not a factor making for inflation. Inflation was mild through the Kennedy-Johnson years, 1961-1968.

Wage settlements became large and a positive factor that sustained inflation during the Viet-Nam war. In particular the Nixon administration courted the support of the Hard-Hats for the war by accepting and even promoting very large wage increases for teamsters (truck drivers) and construction workers. During the Carter administration when the Viet-Nam war was over wage increases were sustained even though in many places the strength of trade unions was diminishing.

American trade unions are largely non-ideological. Socialism and ideas of working class solidarity never loomed large in American unionism. In the Roosevelt era only the garment workers reflected some awareness of Socialist ideals. The purported strength of the Communists in the C.I.O. of the 1930's was with the union staffs and leadership, not with the rank and file.

The guiding principles of the American union movement was and remains business unionism, which means that unions are concerned solely with wage, hours, job security, and working conditions. Unions aimed to achieve a contract by means of collective bargaining that was to lay out the conditions of employment such as wages, hours, job definition, and seniority rights. As labor relations matured the contract included provisions for pensions and health insurance. Trade union contracts are legally binding on both the unions and the employers. In particular strike action during the life of a contract was ruled out.

Business unionism means that the aim of the union movement was the narrowly defined interest of the union membership. It also means that American Unionism was not based on any critique of capitalism as an economic system. Given that orthodox economic theory finds little positive value in unionism, the American union membership was not educated to believe that union membership protected the vital interests of the members. Worker loyalty to unions was weak. Union strength depended in good part on the support by government bodies like the National Labor Relations

Board.

Early in the Reagan administration there was a showdown between the air controllers union and the Department of Transportation which is responsible for this service. The air controllers went on strike. The Reagan administration responded by reducing air traffic and using supervisors, workers who did not strike, and newly, partially trained, workers. Reagan's action was very risky and politically courageous. If there had been a serious accident, the credibility and the ability to govern of Reagan would have suffered a perhaps fatal blow. There was no accident and the union was broken.

The government's action in the air controllers strike was a signal to employers and labor that the administration welcomed tough management stands against unions. Furthermore the administration vigorously carried forward the deregulation movement that had started under Carter. This meant that the shared monopol~~ies~~y in various industries in which workers' wages shared in the monopoly profits were diminished: Deregulation weakened union power.

The appreciation of the dollar after 1979 meant that pressure for wage concessions was put on the highly unionized steel, automobile, rubber and electrical products unions. Aside from coal almost all of the unions that were part of the C.I.O. were adversely affected by the price and trade movements of the 1980's. The failure of industry and government to respond to the loss of domestic markets to imports is almost inexplicable unless it is taken to be part of a pattern which had as its object the weakening of the union movement.

One of the responses to the loss of domestic markets by American business was the shift of manufacturing from the old centers, where unions were strong, to regions of the country where there was no tradition of unionism. The opening of new plants in the South and the West, where lowere wage workers were available, was a response that also served to diminish the importance of union workers in the United States.

American conservatives object to minimum wage legislation. Over the Reagan years they have not moved to repeal the minimum wage laws, but they have not raised the minimum wage. In 1980 the consumers price index was 246.8, in 1985 the index was 322.2; the index had risen by more than 30% over the five years that Reagan was President. In 1980 prices, the minimum wage has been lowered from $3.35 to $2.57.

Even as the minimum wage has been kept at $3.35 the average hourly wage has risen from $6.66 to $8.58 or 29%. Whereas the minimum wage was about 50% of the average hourly earnings when Carter was President, the rate has fallen to less than 40% over the Reagan years. This erosion of the minimum wage relative to the average wage has increased the incentive for employers to run a non-union shop.

Although the principle exists that union contracts are enforcable in law courts, the ability of management to reopen contracts when profits are threatened was enhanced when an airline that was losing money broke its contract with the pilots union. The airline argued that by living up to the contract it would be forced into bankruptcy. When the company won its case in the courts, the balance of power swung strongly to the side of management in bargaining.

The power of American unions depended greatly upon the favor of the National Labor Relations Board, the body which oversees union-management relations in the United States. The Reagan administration, to a much greater extent than the previous conservative Nixon administration, has appointed pro-management people to the Board. As a result, the decisions of the Board have swung to favor management.

The total result of these developments has been a sharp drop in union membership. Union membership is now less than 20% of the labor force. Furthermore the attachment of the membership to their union is weak. Unions are largely being forced to negotiate concessions to employers; not so much on wages as on seniority(job security) and job classifications. Many of the gains in security and stature that workers had achieved in the days of union strength have been negotiated away. A bargaining structure is being put into place that will facilitate large declines in wages and deteriorating working conditions when the next serious recession hits.

As is well known, the participation of voters in American elections is very low. Furthermore, the rate of participation over social classes is closely related to income and educational level. However among workers, union members voted at a higher rate than those who are non-union. Over the era since Roosevelt, union drives to get out the vote of their membership and of workers in general have been vital for the success of the Democratic Party. The decline in union membership means that the potential Democratic vote has declined, the political balance in favor of the Republicans has increased.

The greatest economic success of the Reagan administration has been the decline in the rate of inflation. Conventional wisdom assigns the responsibility for this success to the monetary constraint of the Federal Reserve. However the rate of growth of money and near monies shows that the Federal Reserve has not been very constraining. One cannot explain the success of the Reagan Administration on the inflation front without taking into account the weakening if not the wholesale breaking of trade unions that has taken place. As a result of the weakened unions, the improvement of employment during the expansion has not been accompanied by strong increases in wages. In fact concessionary labor contracts are still being signed, the concessions are especially strong on working conditions.

The Reagan victory over inflation therefore is largely due to the success in union "bashing." The weakening of unions has not only made it possible to force lower wages and productivity increasing changes in working conditions upon American workers, it has also decreased the political support that Democrats can expect from the votes of workers. ~~The~~ Reagons victory against inflation has been achieved at the expense of labor. It will take a serious recession with mass unemployment to demonstrate that it is dangerous for a capitalist economy to erode the power of the institution, trade unions, -that sustains mass purchasing power.