CHAPTER 9
AMERICAN ECONOMIC GROWTH AND DEVELOPMENT, POPULATION CHANGES AND LABOR FORCE DEVELOPMENTS, 1950 TO THE PRESENT

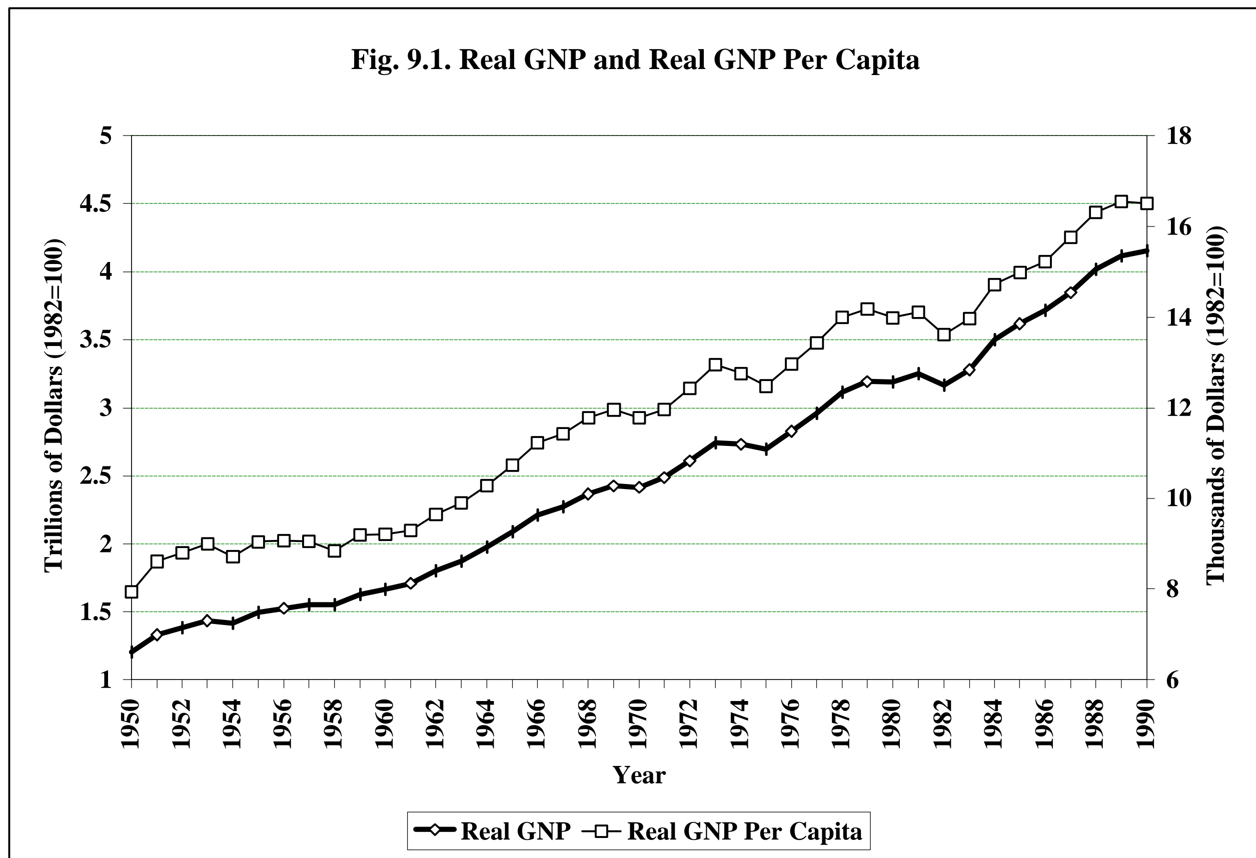
Postwar Economic Growth

In the immediate post-Second World War era, many economists were confident that the tools to eliminate the business cycle and ensure a more rapid rate of real economic growth had been found. Though the dramatic boom and bust of the twenties and thirties did not reappear, Americans soon discovered that government monetary and fiscal policies were not effective in stopping economic contractions and were unable to accelerate or raise the rate of real economic growth.

For the entire 40-year period since 1950, real GNP has grown at the rate of 3.1 percent per year, while real GNP per capita, a better measure of growth in average income and welfare, grew 1.83 percent per year. (See Figure 9.1.) The average over the 40-year period hides considerable variation in this growth. When calculated over decades, the 1950s show the slowest rate of growth of real GNP per capita, while the 1960s show the most rapid rate, however, the lowest average annual unemployment rate was during the 1950s, not the 1960s. The rate of inflation was also considerably lower in the 1950s than in other decades. (See Figures 9.2 and 9.3.)

The higher rate of economic growth in the 1960s led to expectations that the federal government would be able to manage the economy well enough to maintain higher growth rates in the future. This was not the case, because the rate of growth of real GNP per capita dropped after the 1960s, while the average annual unemployment rate rose in the 1970s and in the 1980s. The rate of inflation rose slightly in the 1960s compared to the 1950s and then rose sharply in the 1970s. Though declining in the 1980s, the rate of inflation was still high by historical standards. In fact, in the years prior to the Second World War, excluding years when the United States was engaged in a war, prices were more likely to be found falling in any year than rising.

Fig. 9.1. Real GNP and Real GNP Per Capita



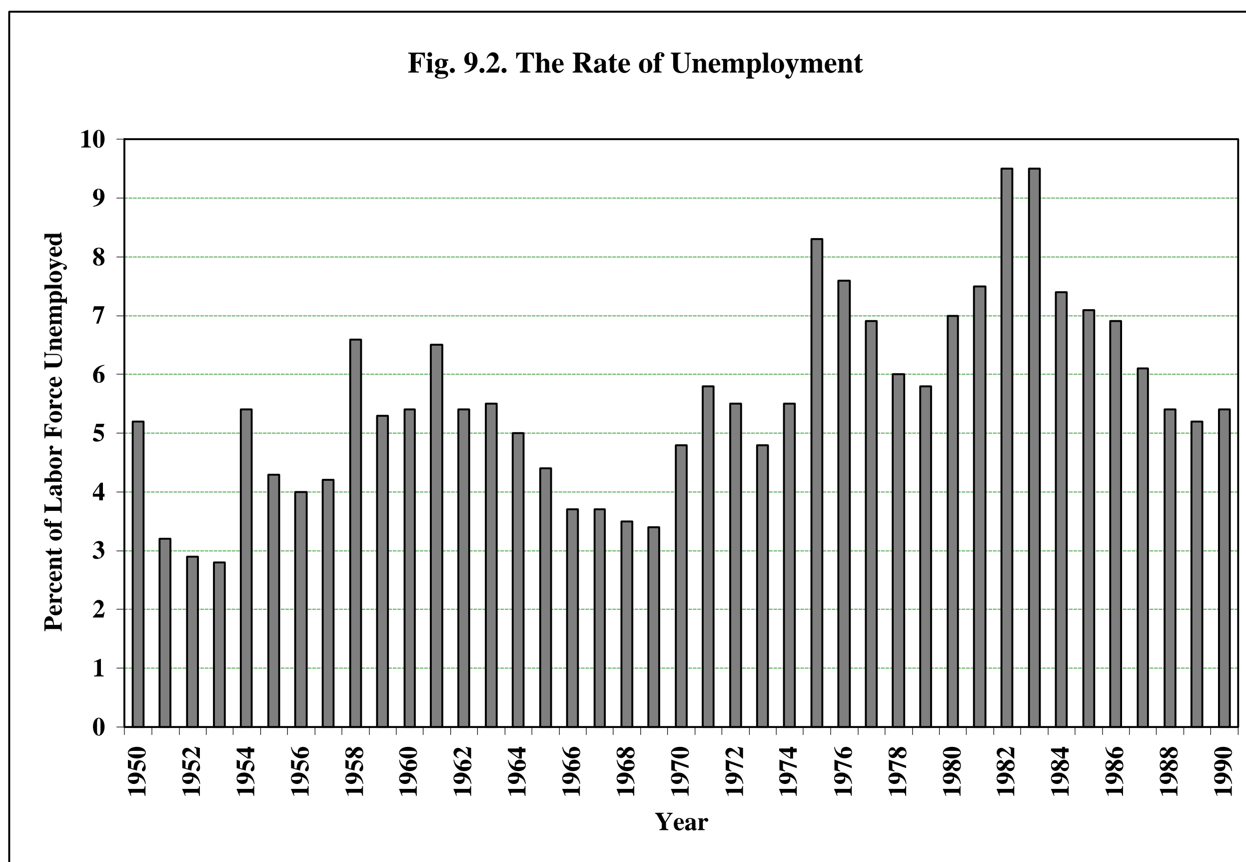


Fig. 9.2. The Rate of Unemployment

Another significant change was in the federal government's budget deficit or surplus. Prior to the Second World War during nondepressed peacetime periods the federal government usually had a surplus, which was used to reduce the federal debt. In the post-war era the federal government ran a deficit in almost every year and, as a percentage of GNP, this deficit was much larger in the 1970s and 1980s. (See Figure 9.4.)

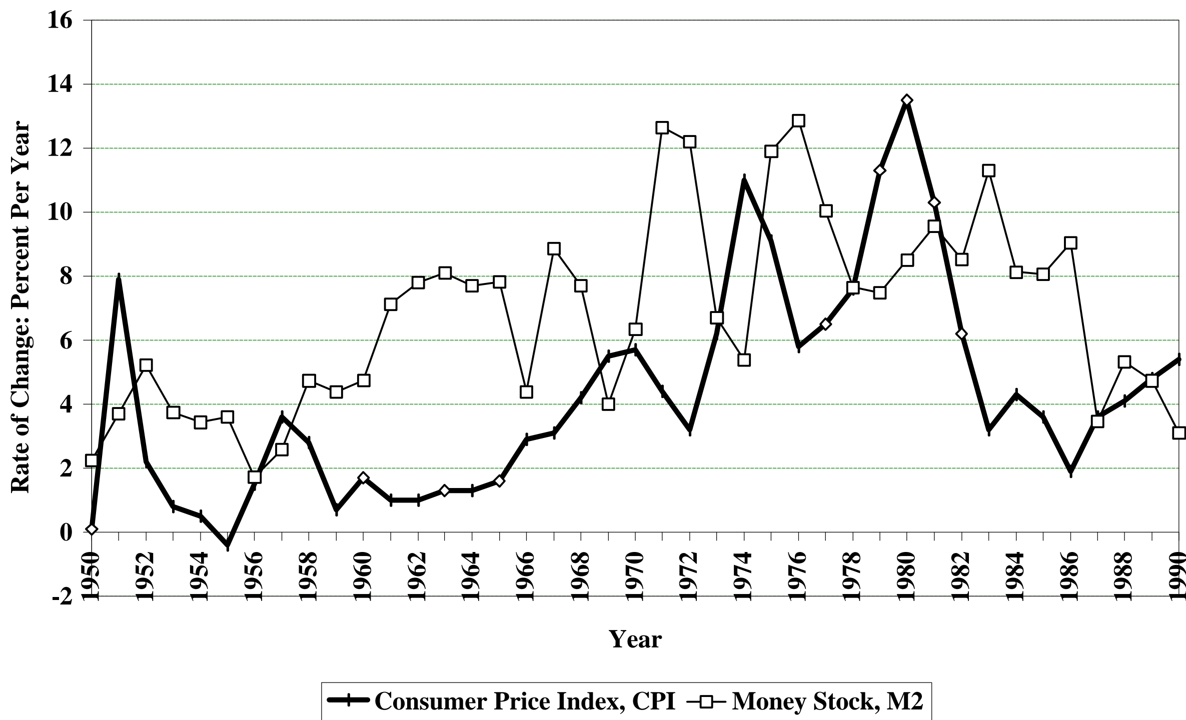
An Overview of the 1950-1990 Period

By 1950 most of the excess demands for durable consumer goods which had been unavailable during the Second World War had been satisfied. The Korean War began in June 1950. Though some price controls were imposed, they had little effect.[1] Following the Korean War, the tendency for prices to rise at what were historically high rates of price inflation was quite unsettling. In addition, the unemployment rate kept inching higher after the recessions of 1949, 1954, and 1958. Combined with the decline in economic growth toward the end of the 1950s, this made the economy a prime target of political controversy.

The postwar baby boom was reaching its height at the end of the 1950s, setting off a wave of investment in educational facilities that would roll on through the colleges in the 1970s. A growing array of household durable goods and convenience foods provided opportunities for more and more women to enter the labor force at the same time that growing incomes led to greater growth in the demands for services. Technological change reduced farm population at an increasing rate, while the price-support programs spawned by the New Deal led to a crisis in the growing surpluses of agricultural commodities. The militarization of the economy to fight the communist threat led to peacetime conscription, a growing military budget, and increased production of military hardware. At the end of his term as President in 1960, Dwight D. Eisenhower warned of the threat that was inherent in the growing "military-industrial complex," thus introducing a new term into the American vocabulary.

The 1960s

The controversial presidential campaign of 1960 gave John F. Kennedy a narrow victory and ushered a more activist federal government. One of the ideas of the time was that "cost-push" inflation was the result of large firms with monopoly power setting higher prices as powerful unions demanded higher wages, thus requiring federal government intervention. Kennedy had a direct confrontation with Roger



Blough of U.S. Steel in April, 1961, as he attempted to stop the large integrated steel producers from raising prices on basic steel products. A sharp break in stock market prices at the time was often blamed on Kennedy's face-off with the steel industry.

Kennedy administration economists, particularly Walter Heller, also pushed for the first explicit use of Keynesian fiscal policy. Arguing that the economy was growing slower than it should, Kennedy proposed that tax rates be reduced to stimulate economic activity even though the federal government was already running a deficit. Kennedy's assassination thrust Lyndon Baines Johnson into the presidency, and he finished getting Kennedy's tax cut passed, dropping marginal personal income tax rates. These tax rate reductions were intended to increase the long-run rate of economic growth rather than counteract a short-run cyclical fluctuation in economic activity. At the same time that the tax rate cuts took effect, the Federal Reserve System began to expand the stock of money at a faster rate. These two policy actions were given credit for spurring a reduction in the rate of unemployment and an acceleration in the rate of real economic growth and helped spur the "go-go" stock market that developed in the 1960s. they also accelerated a minor merger wave that had started in the mid-1950s.

Johnson's presidency was complicated by the rising costs of military involvement in South Viewnam after congress passed the Gulf of Tonkin resolution in 1964, and by his "War on Poversty" that led to new government programs and consequently increases in government spending. Because of the inflation and economic growth, tax revenues did grow, but not sufficiently to cover the increasing spending. A 1968 income tax surcharge was supposed to "cool down" the "overheated" economy, though it had little initial effect.

The 1970s

In 1968 President Johnson, seeing growing dissatisfaction with his pursuit of the war in Vietnam, chose not to run for reelection. Richard M. Nixon defeated Hubert Humphrey in the election and within three years pulled most of the U.S. forces out of Vietnam. Though espousing the traditional Republican commitment to free markets, on August 15, 1971, Nixon, in a surprise move, imposed peacetime price controls on the American economy. In various phases parts of these price controls lasted into 1974. At the same time he devalued the dollar and limited the convertibility of dollars to gold to foreign central banks. In February of 1973, the United States officially abandoned the fixed

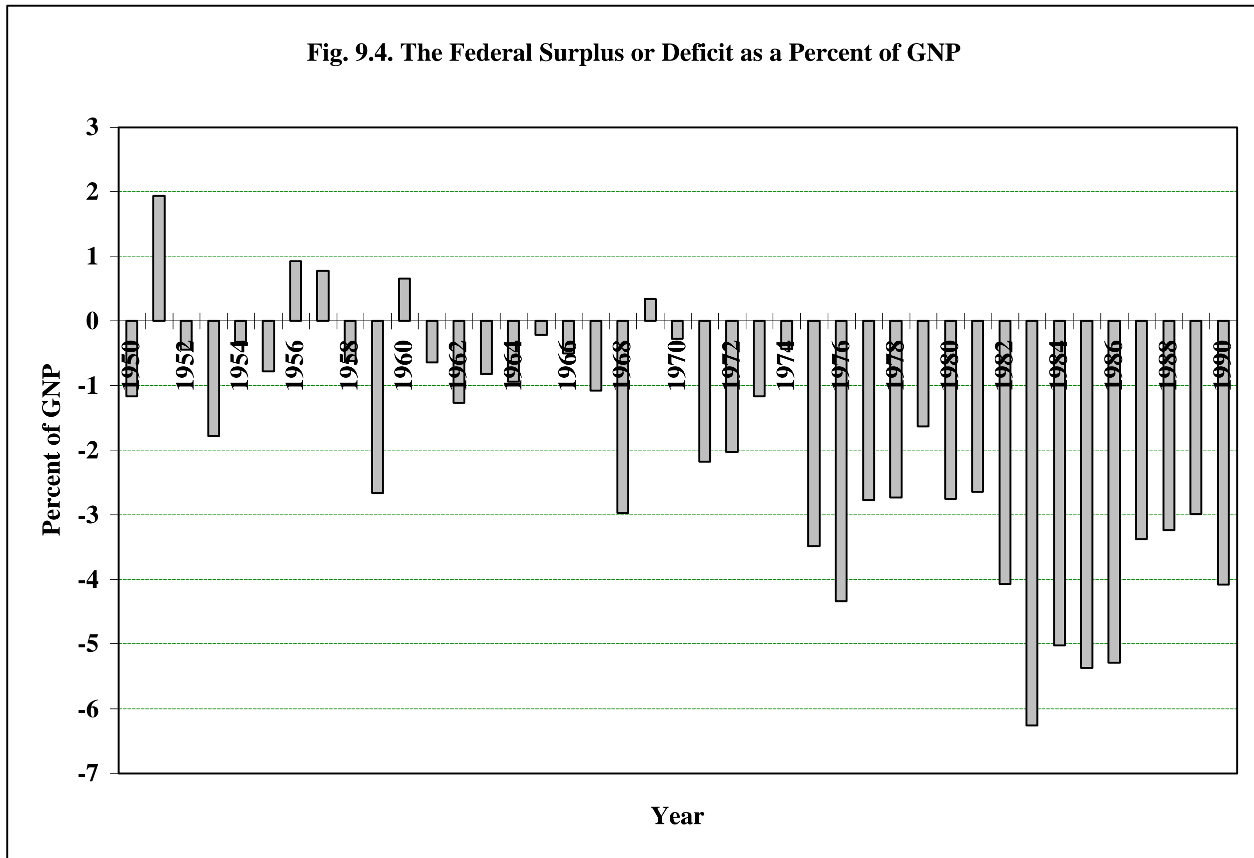


Fig. 9.4. The Federal Surplus or Deficit as a Percent of GNP

exchange rate gold standard and went to a floating exchange rate against other currencies.

These events were the ominous introduction to the economic dislocations of the 1970s. The next major disruption came in agriculture. A combination of factors led to an explosion of meat and grain prices in late 1972 and early 1973. Though the meat price increases slowed down, so did the supply of beef. Consumers began organizing beef and supermarket boycotts, blaming, as usual, the "middlemen," that is, the packing houses and supermarkets, for the rise in prices. Beef virtually disappeared from supermarket shelves for some weeks.

The federal government's price controls continued during 1973. In the fall of 1973, a new Israeli-Arab war broke out. The Arab members of the Organization of Petroleum Exporting Countries (OPEC) decided to impose an embargo on petroleum shipped and sold to the United States and other major allies of Israel to bring pressure on Israel, and also began raising crude oil prices. Within a year crude petroleum prices had quadrupled, initiating a series of sharp price increases for gasoline and other petroleum products. When the price controls were combined with the government's attempt to allocate gasoline supplies among regions, the result was periodic shortages of gasoline through the winter of 1973-74.

Real crude petroleum prices began to fall by 1976 as consumers in the United States and around the world continued to adjust their consumption of crude oil derivatives. In the United States the dependence on imported crude petroleum rose as price controls reduced the production and exploration for domestic crude oil. In 1979 the outbreak of the Iraq-Iran war again reduced the production and shipment of crude petroleum. Gasoline prices in the United States rose sharply, and price controls and federal government distribution of gasoline again created spot shortages.

The rising real prices of gasoline reduced the demand for larger automobiles, which the Big Three American producers primarily supplied, and increased the demand for smaller cars. The Japanese producers were better situated to respond to this, and sales of imported cars rose sharply after 1975 and again after 1979. The domestic firms' profits were severely reduced, and Chrysler Corporation came perilously close to declaring bankruptcy.

The disruptions ushered in with the explosion of petroleum prices in 1973-74 brought on a recession. Aided by the Federal Reserve System's increase in the stock of money of 24.8 percent between 1974 and 1976, consumer prices rose 11 percent from 1974 to 1975 and 9.1 percent from 1975 to 1976. The Fed continued with a rapid growth of

the stock of money for the next several years and this, combined with a rising income velocity of money, led to an acceleration in the rate of inflation. Consumer prices rose 13.5 percent from 1979 to 1980. In the fall of 1979, the Fed announced to the world that monetary policy was being changed and henceforth would be based largely on controlling the growth of the stock of money. Once the Fed stopped trying to control interest rates, rates rose sharply and during 1980 financial institutions struggled through one of the worst bond market crashes in history.

There was a growing reaction against some of the older economic regulation beginning in the mid-1970s, and the Ford administration began several studies to consider the impacts of regulation and deregulation. It was commonly charged by economists that economic regulation often acted to protect the regulated firms against the interests of the consuming public. When Jimmy Carter defeated Gerald Ford for the presidency in 1976, his administration initiated deregulation in interstate airlines, trucking, and communications.

The 1980s

Ronald Reagan was elected president on a "supply-side" platform of cutting taxes and reducing spending. Some supply-side economists argued that a sharp cut in tax rates could so increase incentives to produce that the resulting rise in economic activity could actually generate as much or more tax revenue on much lower tax rates. One of Reagan's first acts was to end all price controls on crude petroleum production and end the federal government's allocation of the differentially priced imported and domestic crude petroleum among American refiners. He then asked Congress to approve a sharp cut in income tax rates. Though expenditures were supposed to be reduced, there was merely a minor reduction in some social expenditures and increases in military expenditures so that federal expenditures actually increased, creating much larger federal budget deficits.

A combination of enormous increases in interest rates and a falling rate of inflation brought on the severe recession of 1981-82. The economic recovery that began in December of 1982 combined with lower inflation rates and higher real rates of interest to create an increasing foreign demand for American securities. The strengthening of the dollar decreased American exports and increased foreign imports into the United States to generate the dollars to invest in American financial and real assets.

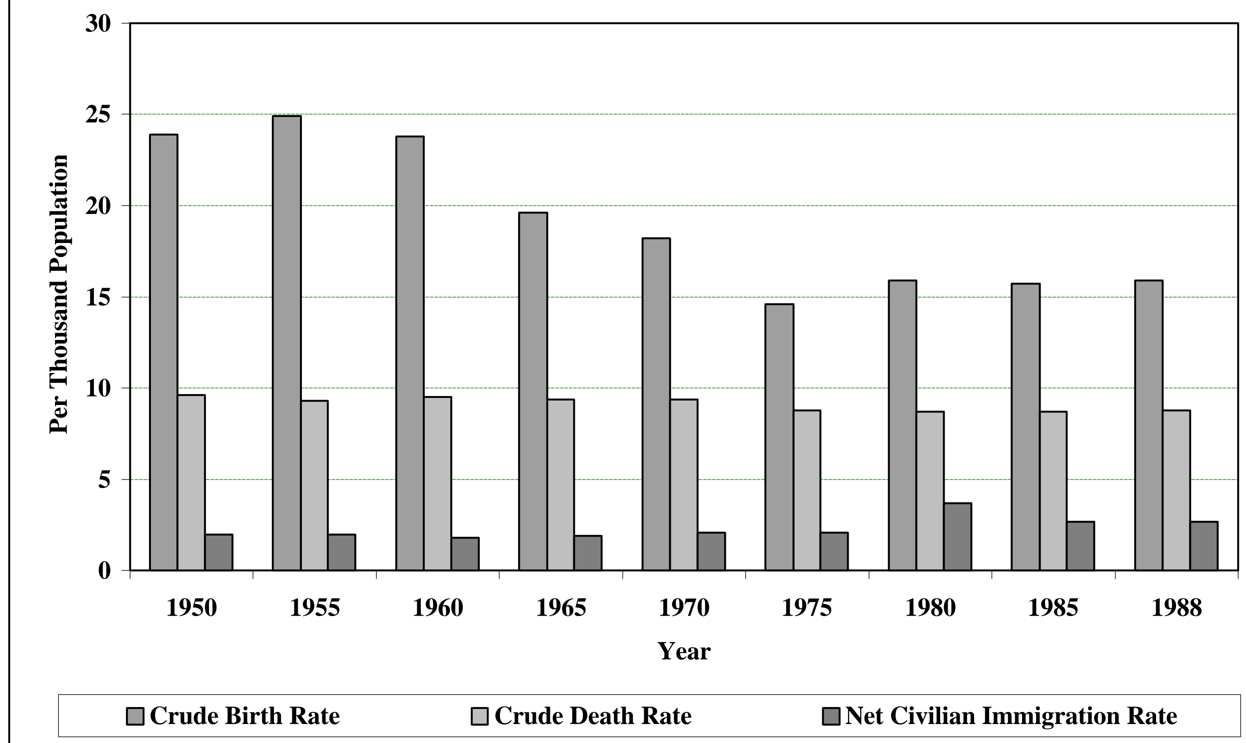
One of the sectors hit by falling foreign demand due to the stronger dollar was the farm sector. Rising costs and falling revenues forced many farmers into bankruptcy, and many small-town banks failed along with the farmers. The agricultural depression pulled down many other farm-related businesses. By early 1988 most of the adjustments had been made, and the recovery in the farm sector had begun.

In real terms, stock prices had fallen throughout most of the 1970s. Spurred by the tax cuts of 1982 and 1986, the stock market boomed in a manner comparable to the 1920s. In August of 1987, stock prices peaked and began an uneven decline, and on Monday, October 19, 1987, the stock market crashed. The Dow-Jones Index fell 508 points for the greatest one-day loss (in both nominal and real terms) in the history of the New York Stock Exchange. Prompt action by the Federal Reserve System apparently stopped a further panic-stricken decline, and within a few months stock prices slowly began to recover, though it took nearly two years to reach the precrash levels. Unlike 1929, the 1987 crash was not associated with an economic depression. As in the past the bull market was accompanied by a merger wave, many of which were engineered using higher default risk "junk bonds," which were often purchased by financial institutions.

And financial institutions had their own difficulties in the 1980s. Bank and thrift failures reached alarming levels, and the first depositor runs since the early 1930s occurred. Caught between inflation, rising interest rates, regulated ceilings on deposit rates, and many older, long-term, low-interest rate mortgage loans, the thrifts began to suffer losses and created new types of higher rate deposit instruments to counter the exodus of funds. Banks began to drop national charters for state charters and to leave the Federal Reserve System to lower costs and improve profits. The Fed argued that this weakened its ability to conduct monetary policy.

In 1980 Congress passed the Depository Deregulation and Monetary Control Act, which brought all banks and thrifts under Fed control and gradually removed all regulations on deposit rates. Thrifts were allowed to purchase other types of assets, and the distinction between commercial banks and thrifts largely disappeared. By the late 1980s, a depression in the oil-producing states and falling real estate values had produced a crisis in the thrift industry. Thrifts as a whole suffered losses, and hundreds were closed down by the regulators. Congress had to bail out the deposit insurance fund which had been exhausted in covering the losses in the banking and thrift industry.

In the following chapters we will examine in more detail these themes and events, such as monetary and fiscal policies, deregulation, the gasoline crises, the agricultural depression, and the financial sector's gyrations. Now, however, we need



to survey postwar changes in the American population and labor force.

The Postwar American Population

From 1930 through 1945, Americans delayed marriage and had smaller families. As a result the birth rate and the growth of the native population plummeted. As Richard A. Easterlin has noted, "Before World War II it was confidently assumed that American population growth was grinding to a halt."[2] With the end of the war, the prosperity led Americans to begin having larger families, thus setting off a population boom. Writing in 1960, Bert G. Hickman argued that this quite possibly was "the most unexpected and remarkable feature" of the era.[3] Population growth accelerated in the late 1940s and reached a one-year peak in 1950 of 2.05 percent. Population growth declined sharply during the 1960s. Since 1970 the rate of population growth has averaged about 1.0 percent per year.

The population growth sent a wave of children into the school systems, leading to construction programs and the hiring of many more teachers. As the population growth subsided, school enrollments began falling, buildings were closed and sold, and teachers were released. Firms producing products for infants found a demand that grew raidly in the 1950s and 1960s and fell just as rapidly in the 1970s.

The great rise and fall of population growth brought dramatic shifts in the age distribution of the population. The rising share of the 65-and-over age group has been termed the "graying of the population." When the Social Security System was set up in the late 1930s, there were about six to seven Americans working for every retired American. By the 1980s there were about three persons working for every person drawing Social Security payments, a ratio projected to fall as low as two to one around the turn of the century. Because of its pay-as-you-go nature, this required increases in Social Security tax rates and the level of income subject to Social Security taxes. The graying of the population led to a much more rapidly rising demand for medical services than would have been predicted just by the rate of total population growth, and this was one of the factors leading to the "inflation" in health care costs of the period.

Mortality

The graying of the population is due to falling death rates as well as falling birth rates. Figure 9.5 presents the components of population change expressed in rates per thousand people. From the late 1940s through the beginning of the 1970s, the crude death

rate remained relatively constant, declined in the early 1970s, and since 1975 has been relatively stable, resulting in longer life expectancies. An age-adjusted mortality rate reported by Richard Easterlin is free of distortions caused by age shifts in the population and is, therefore, a better measure of mortality improvements.[4] From the mid-1930s through about 1954, there was a downward trend in age-adjusted mortality, which Easterlin suggests was largely "due to the diffusion of a succession of newly discovered antibiotic 'wonder drugs,' first introduced in the 1930s."[5] From 1954 through 1968, the age-adjusted mortality rate stopped declining, and it was widely thought that no further decreases could be expected. However, after 1968 mortality again began declining at a faster rate than in the 1930-to-1954 period.

Easterlin suggests that the post 1968-decline in mortality appears to be related to declines in cardiovascular diseases, particularly among the older population, and to a lesser extent to declines in mortality from infectious diseases. The reduction in cardiovascular diseases seems to be related both to identification and treatment of higher risk cases and to lifestyle changes such as the "reduction of smoking, improved diet, and greater exercise."[6]

Fertility

Though the crude birth rate shows a striking decline from 1965 through 1975, a better measure is the total fertility rate. This rate indicates the number of births that 1,000 women would have during their lifetimes. A total fertility rate of 2,110 represents the rate necessary to replace the population, given the current mortality rate and assuming no net immigration to the United States. Since the early 1970s the fertility rate has remained well below the replacement rate. In the 1980s, if the total fertility rate and mortality rates were to continue, the American population would eventually begin declining by about 0.5 percent per year (assuming no net immigration).

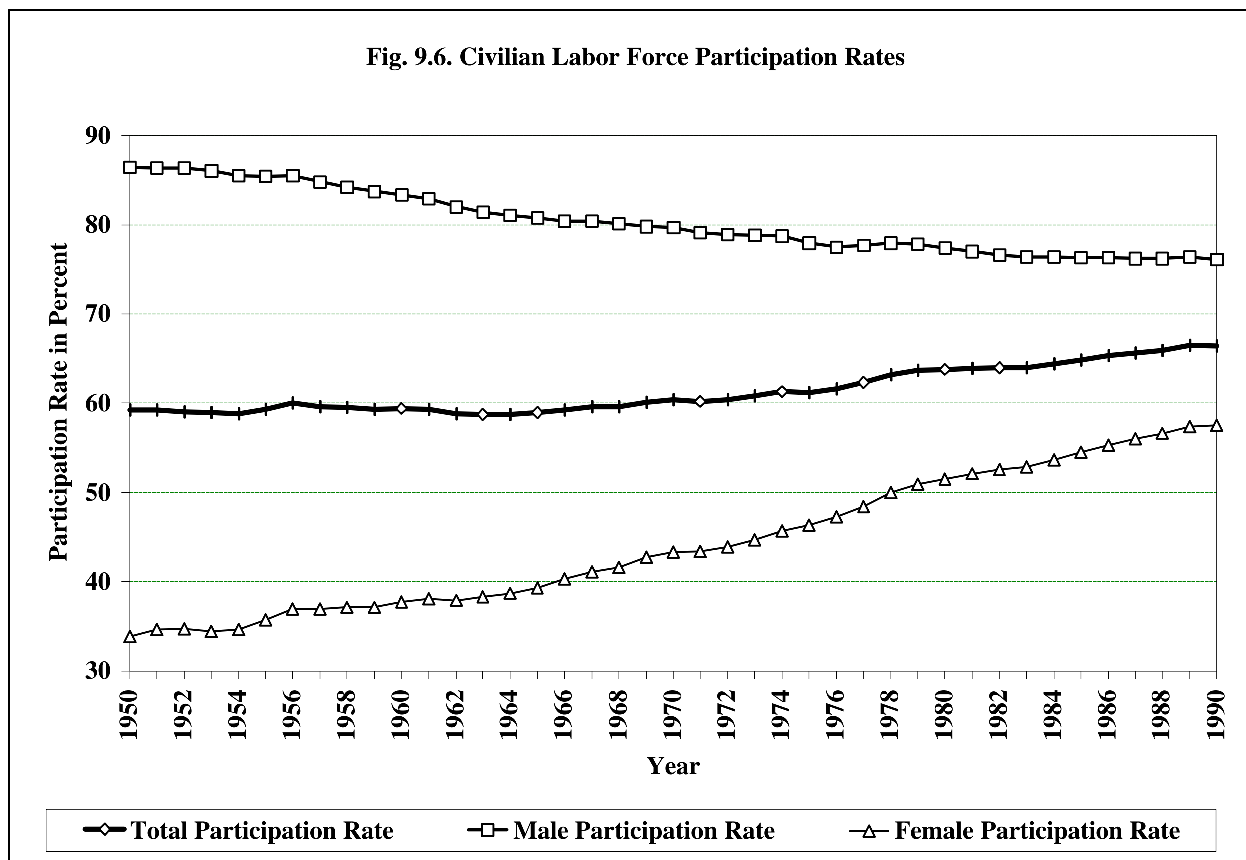
Causes of the Baby Boom and Bust

Richard Easterlin has surveyed the proposed causes of the postwar baby boom and bust. One explanation centers on advances in birth control technology in the 1960s.[7] However, Easterlin argues agsinst such explanations because the 1930s show that Americans could effectively use other methods of birth control when they desired to do so.[8] Another explanation, which Easterlin terms the "New Woman" hypothesis, proposes "that a drastic shift has occurred in an antinatal, prowork direction."[9] As women have become better educated and more career oriented, work outside of the home has replaced work in the home, and a side consequence has been falling fertility.[10] Easterlin points out that some of these premises are incorrect because women actually enjoyed a slight education advantage over men in the 1950s and 1960s, whereas in the last two decades men have enjoyed a slight educational advantage, and surveys have not shown any fundamental shift in attitudes.[11] A third explanation proposes that an increasing demand for female labor has led to a decline in women's fertility.[12] However, Easterlin argues that into the 1980s the growth in the demand for female labor was largely "dependent on the growth of a limited number of occupations in the professional, clerical, sales, and service fields," and these did not grow more rapidly after 1960 than before.

A fourth explanation is one which Easterlin has developed; he calls it the "relative income hypothesis." A couple judges their prospects for achieving a desired lifestyle by the ratio between their potential earning power and their material aspirations. Either exceptionally high expectations of earnings or relatively lower material aspirations can lead to reduced pressures on a young woman to work outside of the home during childbearing and childrearing years. Easterlin argues that the experience of the first few years in the labor market in terms of the ease of acquiring a job, wages, and advancement is probably most important in determining the earnings outlook. Material aspirations are probably primarily determined by the family of origin. Easterlin says, "The expectations of young adults about how they ought to live are largely the unconscious product of the material environment that they experienced during their upbringing."[13] And, of course, this environment is largely determined by the income of the family of origin. Easterlin's empirical examination of the relative income hypothesis suggests it is a plausible explanation of the postwar baby boom and bust.

Immigration

Immigration has continued to be a less important force in population growth. The origination of immigrants has changed. In the aftermath of the Vietnam war immigration from Southeast Asis grew markedly. The other primary source of immigration has been Mexico, the Caribbean countries, and Central America. In fact, it was generally argued that the official statistics seriously undercounted the legal and illegal immigrants from Mexico and Central America. Easterlin estimates that in the 1970s, if illegal immigration had been properly counted, immigration might have accounted for one third of American population growth, compared to one tenth in the 1950s.[14] Illegal immigration has been a prominent concern because it is widely believed that



illegal immigrants represent a drain on the American taxpayers through welfare, health, and other benefits. However, as Easterlin notes, and according to other studies, "Illegal aliens are more likely to pay taxes than they are to receive the benefits of government-sponsored facilities and services."[15]

The Postwar American Labor Force

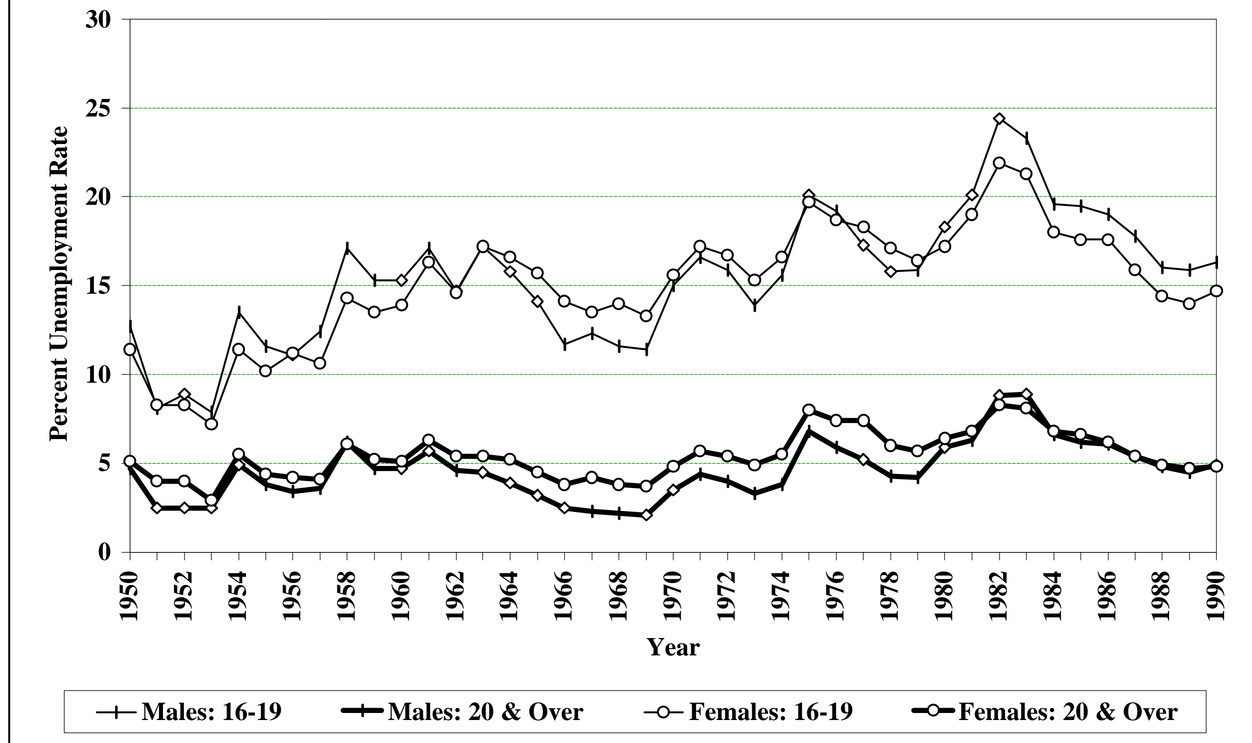
Because of rising rates of participation in the civilian labor force, it has grown faster than the population. The most common is to calculate participation rates based on the relevant civilian population potentially in the labor force. These ratios are shown in Figure 9.6. The total participation rate rose sharply between 1950 and 1990. This was composed of two offsetting trends. Male participation in the labor force fell, while female participation rates rose dramatically.

Most of the decline in the overall male labor force participation rate is explained by a fall in the participation rates for the 55-64 and 65-and-over age groups, though there were declines for all age groups.[16] Several factors are responsible for this, the most important of which is expanded Social Security coverage.[17] Other determinants include the spread of private pension plans, changes in laws regarding the vesting of pensions, and strong incentives to retire including mandatory retirement.

For females, participation rates for all age groups rose except the over-65 group. The largest increases in female labor force participation rates are in the 25-to-44-year-old groups, the prime child-rearing years. One element that helps to explain this is the change in household technology, which has reduced the time necessary to devote to household chores. The growth in the provision of child care services also increasingly allowed women to move into the labor force and to leave it for shorter periods after bearing children. Finally, during this period there was a clear change in social attitudes as it became "more socially acceptable for women to devote themselves to careers as opposed to marriage and family,"[18] though it is not clear which causes which.

Occupations

Just as participation in the labor force was changing, so was the occupational status of American workers. Agricultural employment declined steadily from 1950 through 1970. White-collar employment has risen sharply, while blue-collar and farm-related employment has fallen. Within the category of white-collar employment, most of the gains have been in clerical, professional, and technical workers. Within blue-collar employment, the decline has been concentrated in operatives. Paralleling this the share



of employment in manufacturing, transportation, and public utilities have fallen sharply, whereas employment in retail trade and services have grown the most.

Unemployment

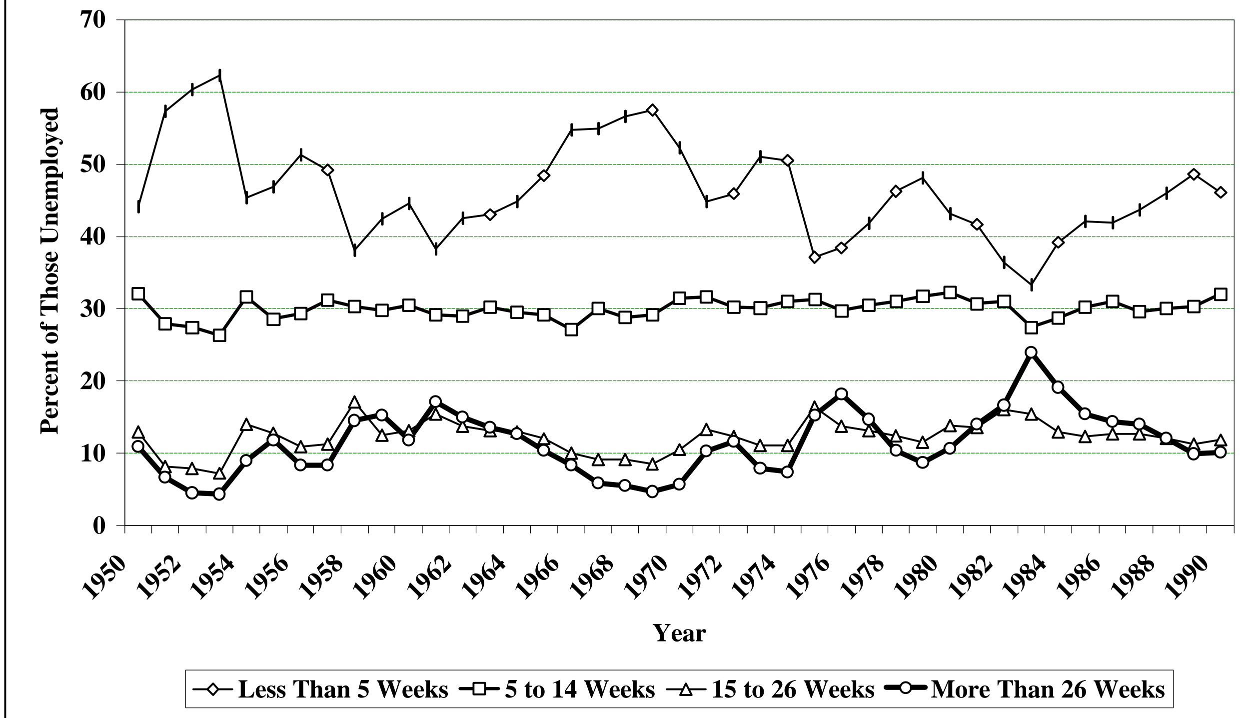
Figures 9.7 through 9.10 summarize the unemployment experience of American workers since 1950. The aggregate unemployment rates released at frequent intervals hide great variations in unemployment rates for different groups. For example, from the early 1960 to the early 1980s, female unemployment rates were generally higher than male unemployment rates but since then have been essentially the same. Unemployment rates for teenages, nonwhites, and women who maintain families have also been much higher. The unemployment rates for nonwhites have generally been much higher. Experienced wage and salary workers have generally had unemployment rates around the national average, while married men, whose spouses are present, have had unemployment rates well below the national average.

The unemployment rate depends upon two characteristics: the frequency with which individuals become unemployed and the average length of time that individuals are unemployed. As can be seen when the unemployment rate has increased, the length of time that unemployed individuals search for a job also increased sharply. The two most severe recessions since the Second World War were in 1974-75 and 1981-82. In the 1974-75 recession the percent unemployed for less than 5 weeks declined from 51.0 to 37.1 percent, and those unemployed for 27 weeks or more rose from 7.9 to 18.2 percent. The average duration of unemployment rose from 10 weeks to 15.8. Similar—but more pronounced—types of changes occurred in 1981-82.

There are four reasons why a person becomes unemployed—losing a job, leaving a job voluntarily, entering the labor force for the first time, or reentering the labor force. Contrary to common perception, job losers are generally less than half of the individuals unemployed at any time, with reentrants to the labor force making up the next largest group. When recessions occur, the proportion of those unemployed who have lost their jobs rises, and the proportion who leave their jobs falls, as can be seen in the recessions in 1974-75 and 1981-82.

Productivity and Wages

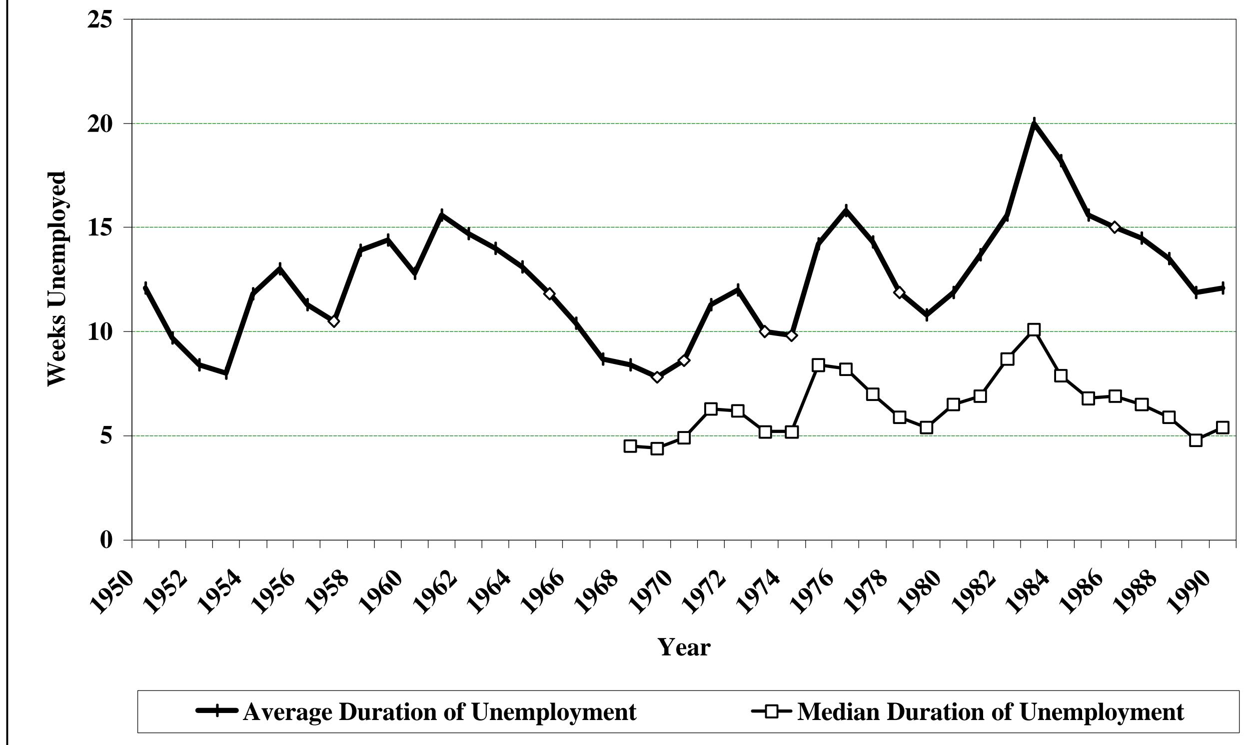
Richard B. Freeman has said, “Perhaps the most disturbing post-World War II trend in the American labor market has been the notable retardation in the growth of real wages and output per labor hour that began in the late 1960s.”[19] It is productivity growth,



or the growth in the output per labor hour, that propels the growth in real wages and earnings. Writing in 1980, Freeman found that labor productivity growth had averaged 3.30 percent a year from 1947 to 1966 and only 1.83 percent a year from 1966 to 1978. Figure 9.11 presents the real average hourly wage for all private nonagricultural industries from 1950 through 1990. Real hourly earnings increased from less than $5.50 an hour in 1950 to $8.55 in 1973 but have since declined to $7.54, about the same as in 1965. Real average weekly earnings show a similar pattern. The greater decline in weekly earnings than hourly earnings represents the effect of the falling workweek.

The sources of the decline in productivity growth have been very hard to locate. A small share of the decline in the overall industry productivity growth is due to sectoral shifts in the economy, such as out of agriculture and into services. Freeman reports that about 22 percent of the slowdown in productivity growth in the 1970s can be attributed to sectoral shifts. However, because productivity declines have occurred in most sectors, sectoral shifts cannot be a major factor.[20] The sluggish growth of the national economy is also not the explanation, because the slow productivity growth explains the slow growth in national economy. Other factors in the productivity slowdown include the reduction in hours worked and the changing age-sex composition of the labor force. These are balanced by the increasing education of the labor force. Growing governmental regulations are generally agreed to have reduced measured productivity, but it has been difficult to develop measures of this effect. As has generally been the case, most of the changes in productivity are attributed to advances in knowledge and other miscellaneous determinants, a catch-all category for those factors that we cannot specify.

As indicated above, the reason for the concern with productivity growth is that this is the primary determinant of growth in real wage rates and earnings. These figures are, however, somewhat misleading. Figures 9.11 presents the gross dollar earnings received by the workers and excludes all fringe benefits such as medical and dental insurance, employer contributions to unemployment insurance and social security, and employer contributions to private retirement plans. We know that the tax exempt status of health insurance and employer contributions to private retirement plans has led to the more rapid growth of this type of compensation in the 1970s and 1980s. Thus the figures understate the growth in earnings in the 1970s and overstate the decline in the 1980s. How much error is involved is not known. There also are flaws in the consumer

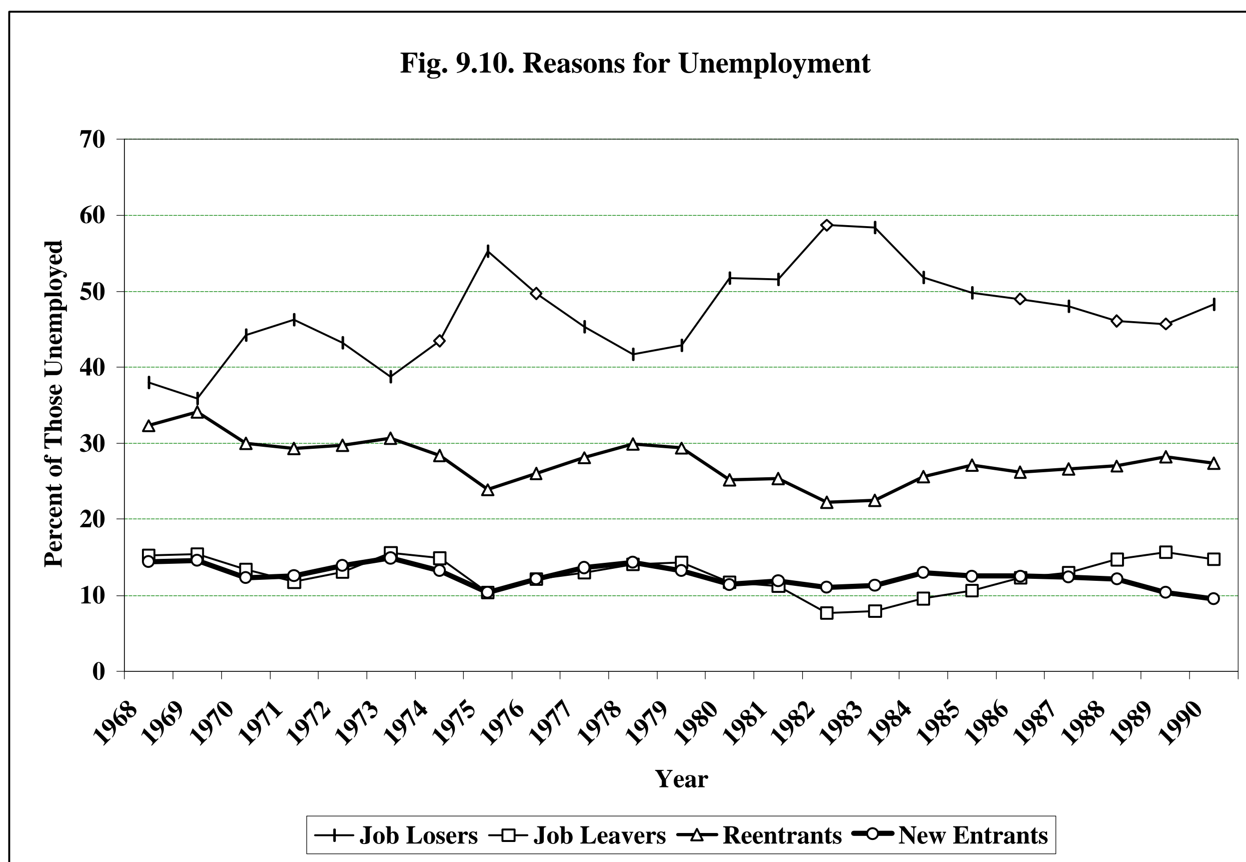


price indexes, which have created an inflationary bias leading to an understatement of real earnings gains.[21]

Robert J. Myers, who was the chief actuary of the Social Security Administration from 1947 until 1970, argues that the wage-indexing series developed by the Social Security Administration (SSA) is superior to the Bureau of Labor Statistics' (BLS) series in chronicling wage movements.[22] The SSA series is somewhat lower than the BLS series in the 1950s and 1960s, quite similar during the 1970s, but diverges after 1979. The SSA's real earnings are 2.4 percent higher than the BLS's in 1980 and 17.6 percent higher than the BLS real earnings in 1989. According to the SSA series, real wages in 1989 exceeded the 1972 real earnings by 3.4 percent. Myers argues that a method to check which series is right is to match them against a third, independent series, for example, the average weekly wages in employment covered by state unemployment programs. He reports that the relationship between the SSA series and the unemployment insurance series has been constant, whereas the relationship between the BLS series and the unemployment insurance series has not been. Thus Myers concludes that the BLS series is biased and therefore that real wages did rise during the 1980s.

The declining productivity figures have been criticized by John W. Kendrick—an authority in productivity analysis—who had predicted that demographic changes, the ending of the aftereffects of the oil price shocks of the 1970s, and a reduced rate of price inflation would accelerate productivity growth during the 1980s.[23] However, the official estimates failed to show the growth he had expected. He argues that the government's estimates of real gross national product significantly understate the real rate of economic growth and artificially depress official productivity statistics. There are three sources of this bias. First, some sectors use estimates of labor inputs rather than output which (contrary to independent studies) necessarily assumes no increase in labor productivity; second, the price deflators are inappropriate; third, the official estimates make inadequate allowances for improvements in the quality of goods and services. When Kendrick added these sources of bias together, he estimated that these conservative expedients adopted by the BEA have led to an underestimate of the growth rate of real GNP and of real business product per hour of about 20 percent.

The criticisms of Myers, Kendrick, and others suggest that real wages and labor productivity may well have risen in the 1980s rather than declined. However, unless the biases in the data have increased in the last 15 to 20 years, which Kendrick



considers a possibility, the rates of growth of real wages and labor productivity have been reduced.

Postwar American Labor Unions

Since the late 1950s union membership as a share of the labor force has been falling, and its influence has diminished.[24] Figure 9.12 presents data on union membership since 1950. As Michael Goldfield has discussed, unions' political influence has declined since the 1960s.[25] In the late 1930s and 1940s unions generally won 80 percent or more of certification elections, but this percentage declined after 1945, and by the 1980s unions were winning well less than half of the certification elections.[26] The number of decertification elections has risen in the 1970s and 1980s and unions have been winning one quarter or less of these.[27] The defensive posture of unions at the end of the 1980s is far different than the aggressive, confident picture they presented just after World War II.

Union Developments since the Second World War

The Taft-Hartley Act, among other features, required that officers sign anticommunist affidavits or forgo the utilization of NLRB services. The CIO then moved to purge the communist leadership or expel the communist-led unions. Between 1948 and 1950 the CIO expelled 11 unions that had consistently adopted pro-Soviet positions. With new leadership in 1952 and a Congress less sympathetic to union causes, the CIO and AFL began the process of reunification. In December of 1955 the reunification was formally completed.[28]

In the late 1950s the McClellan hearings produced sensational charges of criminal elements in unions and of the abridgement of the basic democratic rights of union members. The 1959 Labor Management Reporting and Disclosure Act, better known as the Landrum-Griffin Act, required disclosure of labor unions' internal functioning, electoral reforms, and guaranteed normal democratic freedoms to union members.[29] Throughout the 1960s there was criticism that the AFL-CIO was unnecessarily slow in cleaning up its discriminatory practices, and in some cases black workers used Title VII of the 1964 Civil Rights Act to sue unions and employers with de facto discrimination.[30]

Unions made a number of gains in collective bargaining during the 1950s and 1960s. These included the Cost of Living Adjustment (COLA), Annual Improvement Factor (AIF) to compensate workers for rising productivity, Supplementary Unemployment Benefits, and fringe benefits, such as pensions, health care provisions, group insurance,

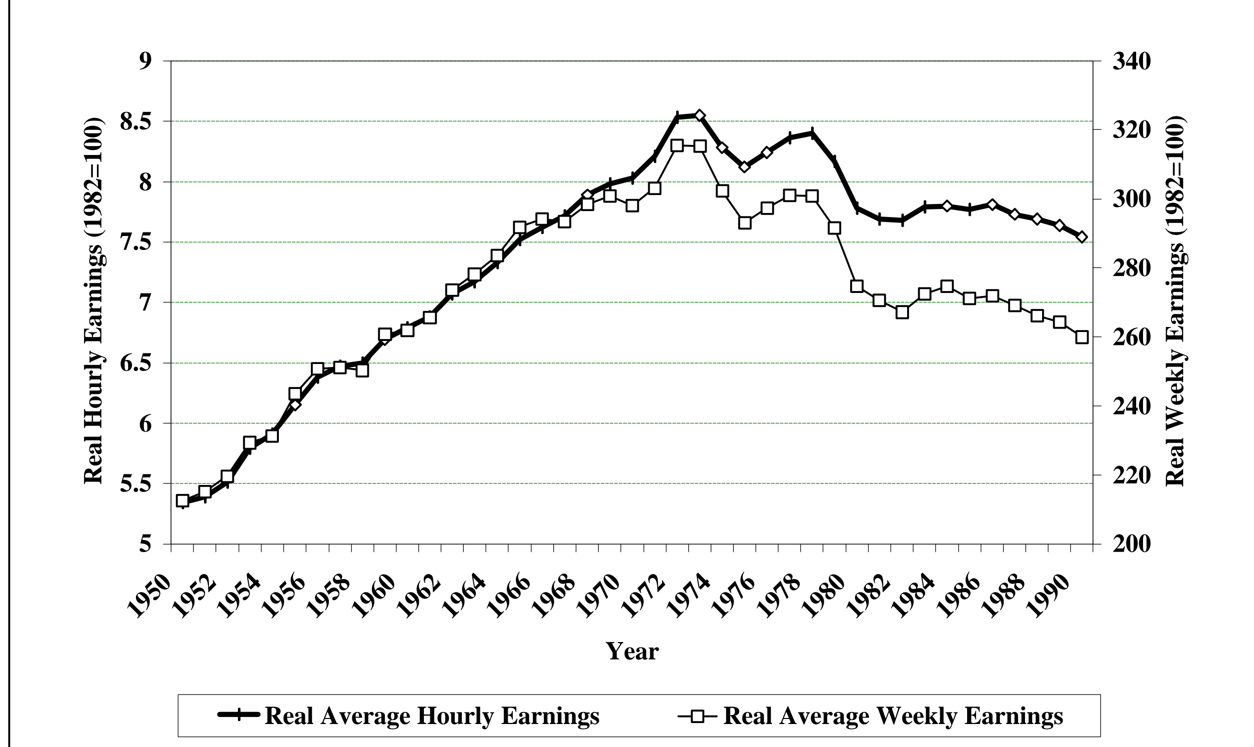


Fig. 9.11. Average Real Hourly and Weekly Earnings in Private Nonagricultural Industries

and vacations with pay. Some unions administered their own pension and health plans. The Teamsters' huge pension funds led to corruption and strengthened the ties of its leadership to organized crime.

Since 1960 there has been an unrelenting diminution of union effectiveness. In the 1970s and 1980s most bills for which unions lobbied hard were defeated. Absolute union membership grew slowly and since the late 1970s has declined. Troubles in the steel industry since the late 1960s and in the automobile industry since the 1970s have devastated the United Automobile Workers' and United Steelworkers' memberships. The UAW's membership fell from 1,468,000 in 1964 to 917,000 in 1989. The United Steelworkers' membership declined from 1,400,000 to only 481,000 in 1989. Membership in the International Brotherhood of Electrical Workers fell from 1,041,000 in 1980 to 744,000 in 1989, while the International Association of Machinists declined from 917,000 in 1976 to 517,000 in 1989.

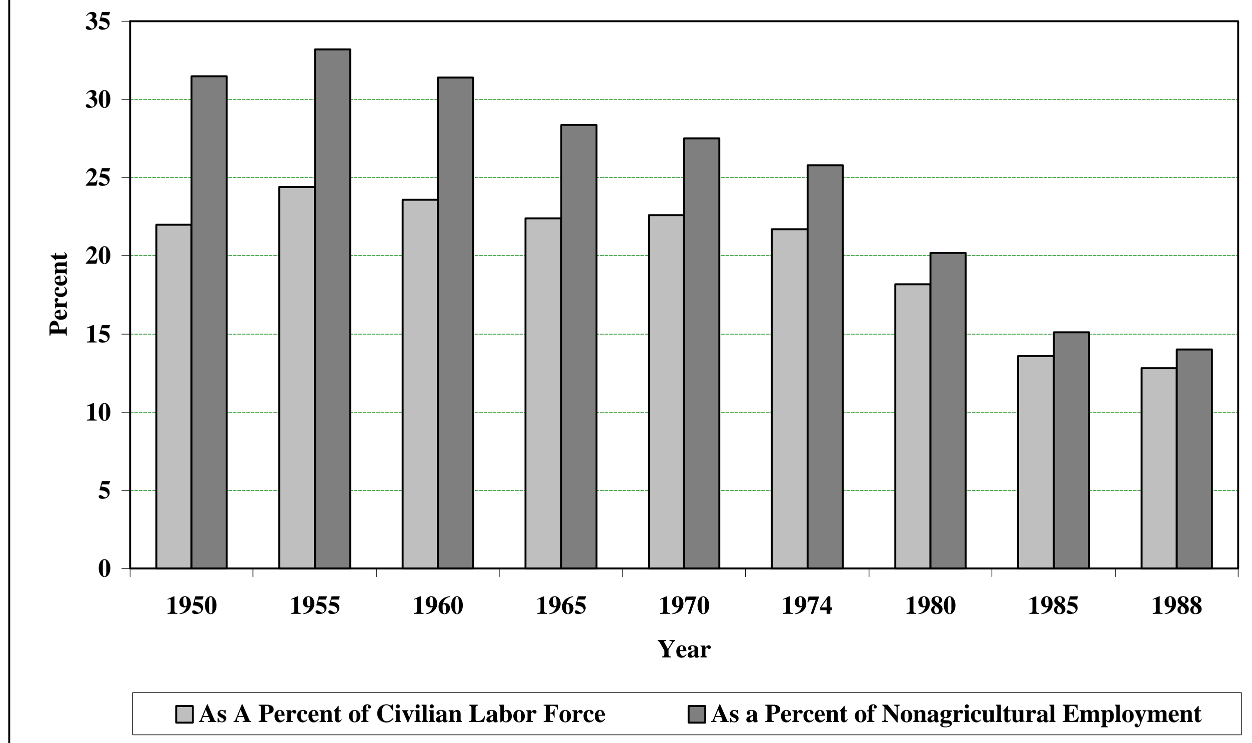
Public Sector Unionism

The data presented in Figure 9.11 understate the decline in unionism in the private sector because the totals and percentages include public sector unions, whose membership has grown rapidly. In 1955 there were about 400,000 members of public sector unions, but there were 5,411,000 by 1983. The percentage of public sector workers who were members of a union was higher than for the private sector.[31]

Strikes by public employees have became much more common since the late 1960s. Strikes by public employees are generally illegal, so strikes by policemen and firemen are usually called the "blue flu" because they call in sick en masse. State and local governments have increasingly resorted to mediation, fact-finding, and binding arbitration. In the summer of 1970, the postal workers and letter carriers went on strike, and the National Guard temporarily delivered the mail.[32] In August 1981 the Professional Air Traffic Controllers Organization (PATCO) went on strike. Because the strike was illegal, President Reagan gave them 48 hours to return to work and after the deadline fired those continuing to strike. PATCO was later decertified.[33]

Causes of Declining Union Membership

Absolute union membership has fallen since the mid-1970s, whereas union membership as a percent of the labor force has declined since the mid-1950s. Explanations that rely upon recent events, such as the high international price of the dollar, higher quality imported goods, and deregulation, are unimportant because the decline began earlier. Analysts also argue



that a changing economic struture is unimportant.[34] There is general agreement that after the changes in the labor laws in 1947 and 1959, firms began to take the offensive in contesting unionization, and unions themselves became less aggressive in their organizing drives, with perhaps one third of the decline attributable to reduced union organizing effort.[35] Firms began to adopt multiple strategies to avoid unions, including hiring labor-management consultants who specialized in campaigns to defeat unions in representations elections. Benefits of unions were offered, such as higher wages, good fringe benefits, seniority protection, and so on, without the costs of membership in unions. Illegal tactics, such as identifying and firing pro-union workers, were used because the penalties were relatively light and such actions often chilled union representation elections. Freeman and Medoff suggest that a quarter to a half of the decline in union membership can be attributed to the increasing effectiveness of firms in contesting union representation elections.[36] Perhaps a third of the representation elections won by unions never resulted in union contracts as the firms were able to continue with nonunion workers. Unionized stores were closed and reopened as nonunionized stores. When unions went on strike, firms were quicker to announce an impasse and begin hiring permanent replacement workers.

Freeman and Medoff point out that if the trend were to continue, union membership would virtually disappear: however, they believe that union strength will return. The reason is that "unions have rarely grown at a moderate steady pace. Instead they have advanced in fits and starts."[37] The most recent spurt came in the U.S. public sector, but they do not foresee which group of workers will bring on the next spurt in union membership.

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Notes

1. See Hugh Rockoff, *Drastic Measures: A History of Wage & Price Controls in the United States* (New York: Cambridge University Press, 1984), chapter 6.

2. Richard A. Easterlin, "American Population Since 1940." Chapter 4 in Martin Feldstein, ed., *The American Economy in Transition* (Chicago: The University of Chicago Press for the National Bureau of Economic Research, 1980), 275. Much of this section will draw upon this excellent survey study. Easterlin has discussed many of these topics in more depth in Richard A. Easterlin, *Birth and Fortune: The Impact of Numbers on Personal Welfare* (New York: Basic Books, 1980).

3. Bert G. Hickman, *Growth and Stability in the Postwar Economy* (Washington: The Brookings Institution, 1960), 161-62.

4. Easterlin, "The American Population," 297. Most of the following discussion is drawn from Easterlin, 297-301.

5. Ibid., 297.

6. Ibid. 300.

7. See Charles F. Westoff and Norman B. Ryder, *The Contraceptive Revolution* (Princeton: Princeton University Press, 1977).

8. Easterlin, "The American Population," 277.

9. Ibid., 278.

10. Charles F. Westoff, "Some Speculation on the Future of Marriage and Fertility," *Family Planning Perspectives* 10 (March/April, 1978): 81.

11. Easterlin, "The American Population," 278-80.

12. Ibid., 280-81.

13. Ibid., 283.

14. Ibid., 304.

15. Ibid., 304.

16. Richard B. Freeman, "The Evolution of the American Labor Market, 1948-80." Chapter 5 in Martin Feldstein, ed., *The American Economy in Transition* (Chicago: The University of Chicago Press for the National Bureau of Economic Research, 1980), 359.

17. Ibid., 361.

18. Ibid., 361.

19. Ibid., 351.

20. Ibid., 352-53.

21. We know that the fixed weights based on budget studies prior to the sharp rise in petroleum prices in 1973-74 overstated the rate of inflation in the 1970s. Similarly the BLS's method of measuring the consumer cost of housing in the index, a factor contributing nearly a quarter of the weight in the CPI, was severely flawed. Though improved in the 1980s the housing component still has its problems. The bias toward inflation means that in a period of more rapid price increases, such as in the mid- and late 1970s and early 1980s, using the consumer price index will increasingly understate real earnings.

22. Robert J. Myers, "Real Wages Went Up in the 1980s," *The Wall Street Journal*, 21 August, 1990. Most analyses arguing that there was no boom for wage-earners during the 1980s rely upon a data series developed by the BLS. Myers argues that the BLS

data do not reflect annual earnings but are calculated as the average weekly earnings times 52. Because it ignores unemployment it tends to overstate earnings. By sampling only production and nonsupervisory wage earners on nonagricultural payrolls, Myers argues that the series then tends to understate earnings. Finally, Myers argues that the BLS's survey sampling techniques introduce further errors. In contrast the SSA's series is based upon a complete count of the total earnings in the first quarter of each year, which is then annualized.

23. John W. Kendrick, "The Economy's Even Better Than It Looks," *The Wall Street Journal*, 24 October, 1989.

24. This section draws heavily upon the following studies: Freeman, "The American Labor Market," 367-76; Robert H. Zeiger, *American Workers, American Unions, 1920-1985* (Baltimore: The Johns Hopkins University Press, 1986); Michael Goldfield, *The Decline of Organized Labor in the United States* (Chicago: The University of Chicago Press, 1987).

25. Goldfield, *The Decline of Organized Labor*, chapter 2.

26. Ibid., 22-25.

27. Ibid., 51-52.

28. Zieger, *American Workers*, 161.

29. Goldfield, *The Decline of Organized Labor*, 85.

30. Zieger, *American Workers*, 177.

31. Albert Rees, *The Economics of Trade Unions*, 3d ed. (Chicago: The University of Chicago Press, 1989), 181.

32. Zieger, *American Workers*, 165-66.

33. Rees, *The Economics of Trade Unions*, 183-84.

34. Rees, *The Economics of Trade Unions*, chapter 13; Goldfield, *The Decline of Organized Labor*, chapter 10.; Richard B. Freeman and James L. Medoff, *What Do Unions Do?* (New York: Basic Books, Inc., 1984), chapter 15.

35. Freeman-Medoff, *What Do Unions Do?* 229-30.

36. Ibid., 237.

37. Ibid., 244.