

ECONOMICS U\$A
PBS PROGRAM #122

LABOR AND MANAGEMENT:
HOW DO THEY COME TO TERMS?

BY LOUIS BARBASH

AIRSCRIPT
AUGUST 8, 1985

22. LABOR UNIONS:

PURPOSE:

To discuss how the demand for labor depends on the marginal value product and the real wage rate, and how labor unions affect the supply of labor, wages, and economic efficiency.

OBJECTIVES:

1. Marginal produce of labor.
 - a. The additional number of units of output a firm can produce because it has hired one more workers is the marginal physical product of that worker. The marginal value product of labor is the dollar value of the marginal physical product.
 - b. If a firm hires more and more workers (but does not increase or improve the equipment those workers can use), each additional worker's marginal physical product will be less (diminishing returns to labor).
2. A profit-maximizing firm will not pay more for a worker than he contributes to output. A firm that is not buying more equipment will maximize profits if it expands production (hires more workers) up to the point at which the marginal value product of the last worker hired equals the going wage.
3. Labor unions can raise wages by artificially restricting the supply of labor available to the firm. In the long run this reduces the number of workers the firm will employ.
4. Unions can contribute to economic output by reducing labor turnover and by improving communication between workers and management. Unions can reduce economic output by obstruction technical change, by restrictive work rules and by exacerbating inflation.

KEY ECONOMIC CONCEPTS:

labor-saving technology
marginal product
labor productivity
diminishing returns to labor

collective bargaining
bilateral monopoly
monopsony

ILLUSTRATIVE EVENTS:

1. the 1909 strike of the garment workers
2. the strike of the printers in New York City in the 1960's
3. the cooperation between the UAW and Chrysler's management when Chrysler was in danger of going into bankruptcy.

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Final Transcript
(Revised 8/25/02)

Annenberg/CPB Project (Logo and Music)

TEASER

DAVID SCHOUMACHER: They were immigrant garment workers...uneducated, unskilled and underpaid. How could they fight for a living wage? After publishing more than a century the prestigious New York Herald Tribune closed in the middle of a strike. Did the union kill the Herald Tribune? For forty years United Auto Workers' Presidents Walter Reuther, Leonard Woodcock and Douglas Fraser won higher pay for their members. Why in 1979 world Fraser agree to take less? Employers and labor unions, like buyers and sellers in the rest of the economy, trying to make the best deal for themselves. Labor and Management: How Do They Come To Terms? With the help of economic analyst Richard Gill we'll examine that question on this edition of Economics U\$A. I'm David Schoumacher.

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(LABOR AND MANAGEMENT: HOW DO THEY COME TO TERMS? appears on screen)

PART I

DAVID SCHOUMACHER: Fewer than one out of every three American workers is covered by a union contract. But organized labor's strength at the economy's pressure points...the big smokestack industries, the arteries of transportation and communication...make them a force to be reckoned with. For more than 75 years labor

unions have been a fact of American economic life. But how did they get their power in the workplace and in the economy? We are a nation of immigrants...and never did more people come to the United States than around the turn of the century. Millions, most of them Jewish or Italian, unskilled and uneducated, settled in New York City's crowded tenements. What kind of work did the "land of opportunity" offer these new arrivals? Fannie Susskind remembers...

FANNIE SUSSKIND: "We came here with the needle in our hands...I worked since twelve years old...when I came here."

DAVID SCHOUMACHER: Union newspaper editor, Leon Stein...

LEON STEIN: "So that the history is one of a sequence of newcomers to America who set foot into America and into the sweatshop...almost simultaneously. It was a cesspool of disease...lint and dust in the air...darkness or inadequate lighting...crowded machinery...dirt on the floor...men and women stripped to the waist bending over the pressing boards and over the sewing machines, with children lolling about. And it was a scene out of hell..."

DAVID SCHOUMACHER: JoAnn Argersinger, Professor of History at the University of Maryland, Baltimore County...

JOANN ARGERSINGER: "The sweatshops that emerged in the late 19th century really came about because of the structure of the industry. There was a chaotic industry that was intensely competitive and there were large numbers of workers, particularly women and immigrants, who were easy prey for many of the employers."

DAVID SCHOUMACHER: Stiff competition and narrow profit margins gave employers a powerful incentive to get their labor as cheap as possible. The employers had the jobs the immigrants needed and they had millions to choose from. Was there any way these young girls could even the odds? It started with the "shirtwaist"...a kind of blouse whose

nationwide popularity turned the women's garment industry from hand stitching to mass production.

LEON STEIN: "With the advent of the "shirtwaist" you began to get factories...big assemblies of workers, where up until this time workers didn't know each other...they feared each other...(How much is he asking for the work in one department? How much is he asking for the work in another department?) But now they were all on one floor...and because they could talk to each other, even though they were forbidden...they got to know each other. This is the prelude to organization."

DAVID SCHOUMACHER: The International Ladies Garment Workers' Union, the ILG, started in 1900...but it took the immigrants, unsure of themselves and their new country, almost 10 years for dissatisfaction with low wages and bad working conditions to burst into flames.

FANNIE SUSSKIND: "There was no use asking the boss for a raise...He used to laugh at you...you asked for a raise. And piecework, when we used to work, it used to be worse."

DAVID SCHOUMACHER: The year was 1909...

LEON STEIN: "The word had spread, a notice had been issued, that there will be a meeting of all the "shirtwaist" makers in Cooper Union on November 22nd. And at that point a little girl...that's the way it's generally told...a frail youngster, raised her hand and she said..."I want to say something"...and they lifted her up to the platform and she said, "I've heard enough talk...I am one of those." She worked in Diamond Waist Company. She says, "the time has come for us to have a general strike."...And Benjamin Feigenbaum stepped forward against the applause and said, "do you mean it? Do you mean it?" he said. "And if you mean it...raise your right hand and take the ancient Hebrew oath"...And it was out of the Psalms..."may this right hand wither if I betray the cause...may my tongue cleave to the roof of my mouth..." Audio Clip: Let's put a stop

to the sweatshop! Let's end the evil of the age. Fight to the finish! We'll win the war we're waging for a decent living, wage. Must we sew and sew, solely to survive so some low so-and-so can thrive? No! He'll fry in Hades if it's up to the Ladies Waistmakers Union Local 25. Unfair! Unfair!

DAVID SCHOUMACHER: And then, after 3 months of closed factories and picket lines, in mid-February of 1910...a compromise. The strike was settled. The workers had won 12% to 15% raises, a closed shop, a 52-hour week, and something else...a role in setting their own wages and conditions. How could New York garment manufacturers afford the better wages and conditions the "waistmakers" strike had won?

JOANN ARGERSINGER: "The larger inside shops could, in fact, afford to give larger wage increases because they produced year-round. Most of the time they weren't affected by seasonality. They had more of a standardized relationship with the textile firms that provided them raw materials. All these sorts of factors allowed them to give wage increases. And also, in the larger shops, the wage increases would be immediately reflected in the price increases in the garments."

DAVID SCHOUMACHER: The "waistmakers" had made their point...If one worker asked for a raise, she could always be replaced with someone else willing to work for less. But workers bargaining together, and if necessary striking together, could win a share of the fruits of higher prices and higher productivity. The unions had made them strong. We asked economic analyst Richard Gill how the ILG used the supply and demand for labor to get wage raises...

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RICHARD GILL: Certainly one important impact of the unions was on working conditions which were sometimes quite intolerable in those days. Unions, of course, also had an impact on wages. To analyze their effect, you have to compare wage

determination, according to the ordinary laws of supply and demand, with wage-determination when unions intervene. Basically, without unions, wages would be determined by the intersection of the business firms' demand curve for that particular kind of labor and the supply curve of such labor. This demand curve reflects two things: consumer demand for the product...garments these firms are producing...and the productivity of the labor employed...roughly, how much each added laborer will contribute to increased garment production. The supply curve reflects the availability of this particular kind of labor and the willingness of workers to supply their labor at various wage rates. Supply and demand are equated at this intersection of the two curves. We get an equilibrium wage, here, and the quantity of labor that will be employed, here. Now in the case of the garment industry at the turn of the century, what you had was an enormous availability of cheap immigrant labor, willing to work at virtually any wage in order to survive. What this meant, technically, is that you had a supply curve of labor that looked like this. At this very low wage, businesses could hire a virtually unlimited amount of labor. Naturally, they had no motive or need to pay higher wages. They would operate here. Now what the ILG did, in effect, was simply to insist that the wage be raised...from here to, say, here. If employers objected, the union was capable of withdrawing virtually the entire labor force from the market...which, of course, is exactly what strikes attempt to do. So the employers decided to settle for this higher wage. The standard of living of the employed garment workers improved, though, of course, at a certain cost. For, other things equal, when wages are raised above the market level, fewer workers will be employed. And, in fact, we can see in our diagram that employment has now fallen from here to here. Few people doubt that the growth of unions had mainly beneficial effects in the early sweatshop days. Even then, however, there were some costs; in later decades, these costs sometimes became substantial.

PART II

DAVID SCHOUMACHER: August 16, 1966...Vietnam War protestors clashed with the House Un-American Activities Committee...The prime interest rate rose to 6%...and “Willie Mays hit his 534th home-run.

(SFX: Telephone ringing)

DAVID SCHOUMACHER: But the New York Herald Tribune didn't cover any of these stories. Because as of 5PM, August 16, 1966...in the midst of a 113 day strike...the century old New York Herald Tribune breathed its last.

JIMMY BRESLIN: "There's no sense screaming about why or who or what or who did it or who loused the thing up and who didn't louse it up...I mean it's all gone...it's all academic now. The paper's gone, that's all...there's nothing else to say."

DAVID SCHOUMACHER: Clay Felker ran the Herald Tribune's Sunday Magazine...

CLAY FELKER: "The whole place was a ferment of creativity because it had very high standards and it emphasized good writing and it was in the business of discovering and supporting talent...journalistic talent. And there were a wonderful collection of writers..."

DAVID SCHOUMACHER: When an honorable old paper like the Herald Tribune goes down in a strike, people start to ask questions about union responsibility...like who killed the Herald Tribune? The death of the Herald Tribune was the climax of the labor-management battle which pitted the paper against the International Typographical Union's Local 6..."Big 6" to people in the trade, a union one scholar said had the most complete control over job conditions of any union in the world. In 1963, Big 6 President, Bertram Powers, had led New York's newspapers out on a 114-day strike...a strike which drew fire even from normally close labor allies.

PRESIDENT KENNEDY: "It is clear in the case of the New York newspaper strike that the Local of the International Typographical Union and its President, Bertram Powers, insofar as anyone can understand his position, are attempting to impose a settlement

which could shut down several newspapers in New York and throw thousands out of work.”

DAVID SCHOUMACHER: The printers returned to work in April of 1963, but two years later, as 1965 contract negotiations drew near, New York newspapers and their union member employees were starting to feel the bite of computer technology. Newspaper copy, which took a linotyper hours, would take minutes by computer. Automated and computerized typesetting machinery could cost the jobs of union printers. But higher wages without the increased productivity of automation could force the less profitable papers out of business...That would mean jobs too. What would the union do? Printers Union Chief, Bertram Powers...

BERTRAM POWERS: “We were faced with the demand for use of computerized typesetting, and the use of film, complete revolution in composury. We understood we’d have to handle it and work with them, and we got into a dispute with the publishers about the introduction and about job protection. There never was a refusal to automate...but there was an inability to agree on how to handle the impact that would result from automation.”

DAVID SCHOUMACHER: But A.H. Raskin, the New York Times labor reporter, saw it differently...

A.H. RASKIN: “The New York newspaper didn’t join the automation trend simply because the unions wouldn’t let them and, in 1965, after a great many efforts to break through, the publishers, for reasons that remain incomprehensible, gave Bert Powers of the Big 6...the Typographical Union here in New York...absolute veto power, which he wanted, so that he then had the whip over automation in the composing. In other words, you could not move toward an improved technology except with a green light from the union.”

DAVID SCHOUMACHER: This new contract aimed at preserving jobs by making automation possible but difficult and expensive. The profitable papers, the New York Times and Daily News, swallowed the costly agreement. They could afford peace with the printers. But for the Herald Tribune, the handwriting was on the wall...in red ink. In the wake of the '65 contract, the Herald Tribune, desperate to cut costs and stay alive, threw in its lot with two other hard-pressed papers, the Journal American and the World Telegram and Sun. The papers' workers paid the mergers price...over 2,000 lay-offs, including more than 400 Big 6 printers. The contract, which was designed to save jobs, had, many thought, wound up costing jobs. April 25, 1966 was to have been the first day of publication for the newly merged papers. Instead, it was the first day of another newspaper strike. By the end of May, Big 6 had signed a contract with the World Journal Tribune, but the other unions hadn't, and, following union tradition, the printers refused to cross picket-lines. The newsroom was empty...the presses silent. Meanwhile the Times, the Post and the News carved up Herald Tribune readership and advertisers. Finally, at 5PM on August 16th, the time the Herald Tribune had bought ran out. What made the difference between life and death for the Herald Tribune? Did the union kill the Herald Tribune?

BERTRAM POWERS: "The issue wasn't really wages or cost-of-labor. If the printers had worked for nothing, the World Journal Tribune would have closed."

A.H. RASKIN: "In a real sense there is just no way to let the union off the hook as the ones who put the knife to its throat...in the immediate sense. Who pulled the knife? They did."

DAVID SCHOUMACHER: The New York Times and Daily News survived and prospered even as the Herald Tribune expired. We asked economic analyst Richard Gill why...

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RICHARD GILL: In technical terms, what you had here was a shifting of both the business demand curves and the union-determined supply curve in the newspaper industry. If we look at a prosperous paper like the New York Times, its situation before the settlements would appear like this. Its demand curve is strongly affected by the productivity of labor...the printers. The supply curve is really the union-determined wage for printers. We have equilibrium at this wage with the number of printers employed, here. Now two things happened in the 1960's. The unions demanded higher wages...so the supply curve of labor shifted up here. But also the Times introduced more highly automated type-setting machinery and this greatly raised the productivity of printers. Since the demand curve for labor reflects the productivity of the printers, the new demand curve might look like this. The final situation, then, might be as follows. The Times is basically still O.K. Wages are higher; employment is lower; but the great productivity increase made possible by automation leaves the firm still profitable. When it came to the relatively unprofitable papers like the Herald Tribune, however, the situation was quite different. They were fairly close to the margin to begin with. The rise in wages deprived them of any funds to introduce compensating technological changes. Hence, there was no great upward shift in their demand curve for labor. Their costs were too high. They would lose too much money to go on. They collapsed. Fortunately, there have been some recent cases where unions have actually helped prevent the collapse of employers in distress.

PART III

DAVID SCHOUMACHER: When early labor leader, Samuel Gompers, was asked what the labor movement wanted...he answered in one word...MORE. And under the leadership of United Auto Workers Presidents Walter Reuther, Leonard Woodcock and Douglas Fraser, autoworkers' wages kept pace with automakers' prices and profits.

LEONARD WOODCOCK: "I'm never satisfied..."

REPORTER: You think you could have done better if you had more time?

LEONARD WOODCOCK: “No, no, no, no...because there’s always more to get but there’s always the next time.”

DAVID SCHOUMACHER: But Big 6 printers have gotten more from the Herald Tribune and seen their employer go under. A newspaper or an auto-maker...trying to turn red ink into black...could cut costs by cutting pay. But why would union members, who had always gotten more, take less? As America drove into the ‘60’s, General Motors, Ford and Chrysler, the so-called Big 3, dominated the auto shows and the roads. As in many of America’s basic industries, lack of competition allowed the Big 3 to keep raising prices. Consumers who wanted to trade-up had to pay-up. But the ‘60’s brought something new to the highways. At first American drivers and producers couldn’t be bothered...30-cent gas made gas-guzzlers a cheap luxury. But the Energy Crisis of the ‘70’s got the attention of American drivers. Consumers took another look at high mileage imports. They were looking...and buying. Foreign cars hit the auto industry like a cyclone. Chrysler was taking on red ink faster than it could bail it out. MIT auto industry expert, Harley Shaiken...

SHAIKEN: “So, when the Oil Embargo hit, they were stuck with lots full of huge Chrysler automobiles that got very poor mileage and were virtually unsellable at any price. They were making large cars when the market wanted small cars, and Iococca, I think, when he first assumed the Chairmanship or the Presidency of Chrysler initially, wasn’t fully aware of how dramatic the damage had been. And the early need was to get money into the company...”

DAVID SCHOUMACHER: Where could Lee Iococca look for the money to keep Chrysler afloat? Douglas Fraser headed the United Auto Workers...

DOUGLAS FRASER: “It was 1979, and as President of the Union we had already made a settlement in GM and Ford...and Iococca asked to meet with me. And I met with him

and he says, “After all these years, we no longer can afford in Chrysler to follow the pattern that has been established in Ford and General Motors.” And he laid out the economic case...and it’s a rather convincing case...so you’re talking about the very survival of the corporation and, more important to me...much more important to me...was the survival of the workers.”

DAVID SCHOUMACHER: Fighting for survival, union workers agreed to pay-cuts...more than \$450 million worth of pay-cuts. But Chrysler was almost broke...What could it give the union in return?

DOUGLAS FRASER: “We had to make horrendous concessions and, in those negotiations, we were able to get profit-sharing. We were able to get some assurances against additional plant closings. We wanted a voice in all of the decisions that affect the lives of our members and so they proposed to the unions a structure where the union would have a meaningful voice in all levels of management...including the Board of Directors.”

DAVID SCHOUMACHER: Chrysler needed more than cost-cuts to design and build and market the small, stylish cars America wanted. It needed credit. But Chrysler’s troubles had cut it off from traditional sources of credit and investment. So, like other borrowers with bad credit, Chrysler chief, Iococca, asked a relative to guarantee a loan...Uncle Sam. Big business bail-outs usually got short shrift from Democratic Congresses and presidents...but the UAW and Democratic leaders were old allies. When UAW chief Fraser talked about the prospect of half a million jobs would be lost in a Chrysler collapse, Capitol Hill listened...and President Jimmy Carter signed Chrysler loan guarantees into law. By 1984, Chrysler was back in the black and government guaranteed loans were repaid.

DOUGLAS FRASER: “You know, I knew how close we were to bankruptcy, but seeing things work like that, where the government takes a hand and you formulate a

constructive strategy...in which all parties have to what I call...with the equality of sacrifice.”

DAVID SCHOUMACHER: The UAW and Chrysler were back on opposite sides of the bargaining table when contract time rolled around again. But something had changed. At Chrysler and around the country the late ‘70’s and the ‘80’s saw struggling companies and their workers set aside old antagonisms in the common interest of survival. We asked one of the nation’s best-known labor economists, University of Wisconsin Professor, Jack Barbash, were we seeing a passing phase or a basic change?

JACK BARBASH: “I think we’re seeing a basic change. The adversarial interest was pushed too far at the expense of this narrow community of interest...and what we’re seeing now from a broad, analytical standpoint, is some enlargement of that area of common interest...like profit-sharing...like worker involvement...like quality of work...like employee ownership...illustrating the basic principle of cooperative relationships.”

DAVID SCHOUMACHER: A business as usual wage increase and price-hike could have sunk Chrysler, but government loan guarantees, the UAW’s agreement to temporary pay-cuts, and Chrysler’s willingness to give the union unprecedented access to management’s top councils kept Chrysler going. A union which was used to asking for more...and a company which was used to giving it had discovered that staying afloat in a competitive economy could sometimes force two old antagonists to take the same tack. We asked economic analyst Richard Gill what accounts for the recent trend away from confrontation and toward cooperation.

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RICHARD GILL: The change is, I think, quite dramatic. The central fact is that union membership as a percentage of the American labor force has been declining for thirty

years. The Chrysler case brings out one reason for the growing pressure on unions: The competition of cheaper, and even in some cases more efficient, foreign labor. But there has also been an enormous change in our economy from hard-hat industries to service industries. White-collar workers are being organized by unions in many instances, but not on a scale to match the decline of the traditional union strongholds. Things are obviously changing. Besides foreign competition, the Chrysler story also suggests another change: the occurrence of actual cooperation between labor and management from opposite sides of the bargaining table. Does this herald the dawn of a new era in which unions and management place their common interest above their conflicts? Maybe not, but one can dream, can't one?

DAVID SCHOUMACHER: The immigrant garment workers who made the ILG learned and taught the lesson...that workers bargaining collectively with an employer can even the economic odds. But as other union workers found out, bargaining power is like a hammer. Swing it too hard or too wildly and you might very well bring the whole business down around your ears...But use it carefully and you can build or even repair a sound structure on a firm foundation. For Economics U\$A, this is David Schoumacher.

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