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Construction Industry Wage Controls During the Nixon Administration

I. Introduction

A. The Nixon administration placed the construction industry under a system of wage and price controls on March 29, 1971, nearly five months prior to the introduction of economywide controls on August 15, 1971.

B. As detailed below, the imposition of controls was the last in a series of actions taken by an administration that was under intense pressure to control wages and prices in an industry that was believed to be of both symbolic and practical importance in the battle against inflation.

C. For a number of reasons, the inflationary pressures created by the overly expansionary fiscal and monetary policies of the 1960s had a disproportionate effect on the construction industry and were reflected in very rapid wage increases from 1967 to 1970.

D. Policymakers and others were concerned that these increases, which did not seem to be justified by comparable increases in productivity, would spill over into other areas of the economy.

II. Unique Nature of Construction Industry

A. The special attention given the construction industry during the Nixon administration was nothing new.

1. Indeed, in every modern U.S. episode of wage and price controls, the unique features of the industry have led to the establishment of a separate system of controls for construction.

2. It is an industry that often operates with extensive government funding and frequently under government regulation.

B. The construction labor force makes up, on average, about 5% of total employment, but the industry is highly seasonal, so this amount varies greatly over the year. In periods of peak demand, the industry can even double its employment as workers shift from other occupations to the less skilled construction trades.

C. Among the more highly skilled trades, however, geography places some limits on the available labor supply.

1. For instance, an electrician in Detroit is of little use to a contractor with a construction project in Chicago.

2. Moreover, inducing a worker to move to a new city to work on a project that might last only a few months is likely to be prohibitively expensive.

3. Similarly, it takes time, and perhaps the cooperation of a union local, for new workers to acquire the necessary skills.

4. As a result, at least in the short run, contractors' labor supply is limited mostly to the local trades who already have the necessary skills.

5. As one labor leader put it, "You can import a car, but you can't import a skyscraper."

6. Given the increasing importance of prefabricated construction this may be less true today. But in the early 1970s, this was an important consideration.

D. Another feature of the industry is the lumpiness of demand.

1. A large project can occupy a significant fraction of the available labor supply.

2. Thus, if by chance several new projects are started at once, capacity can be a significant problem.

3. Combined with the geographic limitations on labor markets, this means that the industry is prone to bottlenecks, in which one or more skilled trades is temporarily in very short supply.

4. This can lead to delays and added expenses. In such circumstances a local union can wield significant bargaining power.

E. The unions' bargaining power is greatly enhanced by the Federal Davis Bacon Act and associated state "little Davis Bacon" acts, which ensure that on a significant fraction of non residential construction projects, prevailing wage rates must be paid to all workers in a given trade.

1. This effectively eliminates much of the competition from nonunion labor because prevailing rates are often the same as union rates.

2. Today, of course, union power in the industry has declined somewhat along with the declining share of union workers in employment.

3. For instance, in 1970, 42% of construction workers belonged to unions, while only 19% carried union cards in 1996. (Allen, 1994.)

F. The craft unions, each of which represents workers with a different set of specialized skills, are extremely important to the industry.

1. Indeed, since workers' contacts with individual construction contractors are frequently for short periods, sometimes as little as one or two hours, the union is the major force for employment stability in the industry.

2. In negotiating wage rates, the craft unions must balance their members' desires for both secure employment and attractive wages.

G. The relative wage rates of the various crafts is often a major consideration in such bargaining. Workers, and sometimes contractors, have strongly held notions about the proper wage differential between construction crafts.

1. These are based on the required levels of specialized skills and training as well as historical precedent.

2. Moreover, since tradesmen often work side by side with members of other craft unions, they usually know exactly how their wages compare to others' and whether those rates are consistent with their assessment of the relative worth of various sets of skills.

3. An attempt to negotiate wage rates that would leave a trade's relative position significantly worse than historical norms is likely to be met with resistance and threats of a strike.

H. This difficulty of altering relative wages can mean that even when it is only workers from one or a few crafts that are in short supply, wages for all crafts may tend to rise.

1. Since wage rates for the various crafts are negotiated at different times, a kind of "leap frogging" process can occur in which each craft demands an increase that would bring its relative wage above past levels.

2. Such demands stem from the often correct belief that during the period of their contract, the other crafts will be negotiating similar increases and, thus, that it is necessary to get ahead at the beginning in order to avoid being too far behind at the end.

III. The Prelude to Controls

A. The mid 1960s was the era when the Johnson administration believed that we could have both guns and butter — that we could both fight the Vietnam war and fund the Great Society programs.

B. Such expansionary fiscal policies put pressure on monetary policymakers to accommodate a rapid growth of nominal demand and increasing inflationary pressures were the result.

C. Later in the decade, fiscal and monetary policymakers attempted to stem the acceleration of inflation, but either their policy actions were too modest or Milton Friedman's famous "long and variable lags" prevented their effects from showing up as soon as was hoped.

D. Either way, policymakers' faltering attempts to fight inflation caused a high level of frustration among the American people and economic pressures soon evolved into powerful political pressures to "do something" about inflation.

E. One manifestation of the excessive nominal demand growth fostered by fiscal and monetary policies was a boom in the construction industry in the late 1960s, especially in many of the major Northern cities.

1. The long and rapid economic expansion of the era was especially significant in the heavy industries that were based in these cities.

2. Moreover, construction of the interstate highway system was in full swing and many new federal and state buildings were being built.

F. One can see the legacy of this period in the highways and skylines of cities like Chicago.

1. For instance, Chicago's system of highways, 90% of which was financed by the federal government, was completed in 1969 (Mayer and Wade, 1969, p. 440.).

2. Similarly, many of the skyscrapers in downtown Chicago were completed in the late 1960s, including such large public projects as the Post Office and Federal Office Building complex on Jackson and Van Buren.

G. In this environment, the construction industry saw dramatic wage and price increases.

1. For example, the annual rate of growth in average hourly earnings for production workers in the U.S. construction industry increased from about 3% in 1963, to about 5% in 1966, to nearly 9% in 1969.

2. Rates of growth in the unionized sector increased even faster, especially in cities where shortages of qualified workers were most severe.

3. Wage growth that was outpacing productivity growth was not the only problem confronting those who wanted to build.

4. The number of strikes also was increasing, raising additional costs.

H. In this atmosphere, representatives of some of the major manufacturing corporations that were among the principal users of construction services came together in 1969 to form the Construction Users Anti-inflation Roundtable, chaired by Roger Blough, former chairman of U.S. Steel Corporation.

1. Its intent was to lobby the administration to take actions that would lead to lower construction costs including inefficiencies caused by uneconomic work rules.

2. The Roundtable argued that the construction industry was both a symbol and an important cause of the increase in U.S. inflation.

3. As Blough testified to the Joint Economic Committee, "The source of wage push inflation lies primarily, although not entirely, in the field of construction" (Lenhart, 1971).

I. As the pressure on policymakers to slow inflation grew stronger, the administration attempted to supplement standard monetary and fiscal policies with the use of "moral suasion."

1. For instance, in 1969, the Council of Economic Advisors observed inflation accelerating, notably in housing prices, and responded by issuing "Inflation Alerts."

2. These were ineffective at reducing price increases, but made public the Council's concern about spillover effects from construction wages to other industries.

3. About the same time, the Cabinet Committee on Construction was established to study the possibility that the continuing increases in construction wages could prompt similar increases in other industries.

4. These two events were just the first in a series of efforts to stop inflation at what many considered its source — the construction industry.

J. Also in 1969, discussions with management, labor, and the administration about problems in the construction industry led to an executive order establishing the Construction Industry Collective Bargaining Commission (CICBC).

1. The CICBC was a 12 member board with labor, management, and government representative and was chaired by the Secretary of Labor.

2. Its major activities focused on longer-term issues such as the nature of apprenticeship programs and the structure of bargaining.

3. It also had some limited and little used disputesettling authority.

K. A short time later, Congress gave the administration the authority to impose wage and price controls with the Economic Stabilization Act of 1970.

1. Of course, few thought that President Nixon would actually use the controls.

2. Many saw this as a political move designed to position the Democrats, who controlled Congress, to use inflation as an issue in the next election.

L. By mid 1970, even many of the national leaders of construction industry trade unions felt that wages were rising too fast in their industry.

1. Such concerns may have stemmed from the fear that building would decline as firms found the costs too high or nonunion labor would make inroads into the industry.

2. Either way, the level of union employment (and union dues) was threatened.

3. However, union leaders found it very difficult to publicly agree to any kind of voluntary wage restraints due to political pressure from their local memberships.

4. John Dunlop, who had studied and worked with the industry for many years, held private meetings with industry leaders in the late fall to work out the details of a stabilization program.

M. On January 18, 1971, President Nixon met with national union leaders and representatives of contractor associations.

1. The plan was for the president to take a hardline stance and demand that the parties come up with a workable plan for voluntary controls.

2. This would give the union leaders, many of whom privately were agreeable to a stabilization program, the political cover to take some meaningful steps.

3. However, the meeting was not successful. No ultimatums were made and union leaders were only asked to prepare a plan for voluntary controls within 30 days.

4. Without the political cover of an ultimatum from the White House, union leaders did little to prepare a plan for voluntary controls.

5. Finally, after an extension of the 30 day deadline, they produced a plan that was quickly rejected as inadequate.

N. At this point the administration did something unexpected. Instead of continuing to push for a system of voluntary wage and price controls for the construction industry, Nixon suspended the Davis Bacon Act without prior notice on February 23, 1971.

1. In doing so, he invoked a clause in the 1931 legislation that allowed for suspension in the case of national emergencies.

2. The administration's intent was to weaken union bargaining positions and reduce wage increases.

3. However, the administration's legal authority to suspend the act in the circumstances of the early 1970s was questionable.

4. Moreover, its further claim that the suspension also applied to the 38 state "little Davis Bacon" acts led to a legal battle that the administration soon appeared likely to lose.

5. Thus on March 29, 1971, Nixon reinstated the Davis Bacon Act in Executive Order 11588, but this order went further.

IV. The Construction Industry Stabilization Committee

A. The main purpose of the executive order, invoked by utilizing authority under the Economic Stabilization Act of 1970, was to enact a system of wage and price controls for the construction industry.

B. It established the tripartite Construction Industry Stabilization Committee (CISC), which was composed of labor, management, and non governmental neutrals and chaired by John Dunlop.

1. Its purpose was to determine acceptable levels for prices and wages in union construction contracts. Two criteria were to be applied to determine the acceptability of labor contracts.

    a. First, there was the broad goal of reducing wage increases to the 6% level that had been the median increase from 1961 to 1968.

b. The second criterion was whether adjustments were necessary to restore traditional wage relationships among different crafts in a given locality and avoid competitive leap frogging of wage increases (Lenhart, 1971).

c. The executive order also called for price controls.

1. However, since nearly every construction project is unique, directly controlling prices is practically impossible.

2. Nevertheless, the Interagency Committee on Construction was created to determine acceptable prices for construction contracts and standards for executive compensation.

3. It took the committee almost five months, and the help of a great deal of legal talent, to draw up a very complicated system of price controls.

4. However, before these could actually be implemented, the wage and price freeze of August 15, 1971 was announced, and the responsibility for controlling construction prices passed to the newly formed Cost of Living Council.

D. The CISC, however, continued to operate independently of the Pay Board, which had been established to administer economy-wide wage controls, and its general guideline of 5.5% wage increases.

1. Indeed, wage controls under the CISC and the Pay Board differed in some notable ways.

2. As already mentioned, the CISC recognized the need for "equity adjustments" in order to restore traditional relationships between the wages of various crafts.

3. Especially in the early period of controls, these adjustments often resulted in contracts that exceeded the 6% target.

E. In an environment in which contracts last several years and inflation is significant, it can make a large difference whether controls are imposed immediately after a large increase has been signed or immediately before one is about to be signed.

1. In the former case, relative wages may be higher than was anticipated by the contracting parties, while in the latter, relative wages will be lower.

2. The distortions caused by a one size fits all system of controls that locks in such relative wage relationships are one of the hallmarks of wage controls and a primary reason why they should not be used.

3. Moreover, such distortions can lead to strikes, especially in an industry like construction with its emphasis on relative wages.

F. As noted, the CISC avoided some of the distortions associated with the rigid imposition of controls by adopting a case by case approach in which "inflation catch up adjustments" could be granted when necessary.

1. Of course, one of the drawbacks of a case by case approach is the necessity of having a large administrative staff for implementation.

2. However, in the case of the construction industry, a staff was already available since the Department of Labor had a corps of workers devoted to determining prevailing wages under the Davis Bacon Act.

3. The Secretary of Labor's decision to only issue wage determinations under Davis-Bacon that were established by the CISC was critical to the success of the program.

G. Another unique aspect of the CISC was the creation of national dispute resolution boards for each of the major crafts.

1. These "craft boards," which were made up of both union and management representatives, resolved local disputes, thereby shifting responsibility from local negotiators to national union representatives who were more sympathetic with the objective of the wage stabilization program.

2. The dispute resolution mechanism of the CISC was especially important in 1971 when controls were new.

3. Though unions refused to make a no strike pledge, they did agree to the dispute resolution mechanism of the craft boards which appear to have been instrumental in reducing the number of strikes. (Mills, 1972, p. 357.)

H. One could argue that, quantitatively, the CISC was a success. The very rapid wage increases of the late 1960s and 1970 significantly moderated almost immediately.

1. For instance, the average first year wage increases for union contracts declined from 21.3% in the third quarter of 1970 to 11.0% in the third quarter of 1971 (Mills, 1971, p. 356).

2. Average first year wage increases in construction contracts continued to decline, going from an average of 19.6% in 1970, to 14.1%in 1971, 7.5% in 1972, and 5.8% in 1973.

3. Those declines can be compared to increases in manufacturing wage growth which went from 9.9% in 1970 to 11.7% in 1971, and flat wage growth in the economy outside of manufacturing and construction where, during this period, wages increased 13.1% in each year (Council on Wage and Price Stability, 1976).

4. Moreover, the number of strikes was reduced from 1,137 in 1970 to 751 in 1971 and 701 in 1972 and man-days idle dropped more than 50% in 1971 after the creation of the CISC (Lipsky and Farber, 1976, p. 390).

5. In addition, the CISC removed or modified costly work rules from collective bargaining agreements.

I. Of course, it is possible that the moderation in construction wage increases would have occurred without controls, though perhaps not as quickly.

1. Even after 1974, when the CISC ceased to exist, construction wage increases most often have lagged those for other workers.

2. Looking at the entire period from 1950 to 1997, the late 60's and early 70's seem to stand out as a unique time when construction wages consistently increased more rapidly than wages in other sectors.

J. More importantly, a focus on average wage rates misses the great costs of wage controls which come from the substitution of highly fallible government administrators for the power of the market mechanism and the distortions that this can create in relative wages and prices.

1. Because the CISC was carefully designed, the construction industry was able to avoid the worst of these costs, but over many years such costs would surely have risen as relative price adjustments became more essential to the efficient functioning of the economy.

V. Conclusion

A. With the cooperation of national union leaders in the construction industry, wage controls were implemented in construction in a highly pragmatic manner, avoiding some of their worst effects.

B. Nevertheless, it is clear that the adoption of controls, which was the product of intense political pressure, was a mistake, which should never again be repeated in a peace time economy.

C. Policymakers of the day had too little appreciation for the complexity of the economy, for how creative workers and firms would be in circumventing controls, and for the costs of stifling the price mechanism.

D. Most of all, they failed to realize that wage and price controls were no substitute for sound monetary policy.

E. Even many mainstream economists of the day doubted the ability of monetary policy to control inflation.

F. Many more sought a way to eliminate inflation that was less painful than a suitably restrictive monetary policy.

G. The dramatic disinflation engineered by the Federal Reserve of the early Volcker era and the further progress toward price stability since then have shown clearly that monetary policy can control inflation.

H. Of course, the disinflation of the early 1980s was far from painless.

I However, it put the economy on a much firmer financial basis and has been one of the keys to the last 15 years of nearly uninterrupted economic expansion, a legacy that obviously compares quite favorably with that of the wage and price controls of the early 1970s.