

Wars of Attrition

***Vietnam, the Business Roundtable, and the
Decline of Construction Unions***

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Part I

Employer Resentment and Union Overestimation of the Vanishing Reserve Army of the Unemployed

What was wrong with 1968 and 1967? We had full employment. But at what cost? 300 Americans dead every week. That is too high.¹

¹Richard Nixon, "Remarks to the AFL-CIO Ninth Constitutional Convention of the AFL-CIO in Bal Harbor, Florida, November 19, 1971," in *PPPUS: Richard Nixon: 1971*, at 1118-25 at 1120 (1972).

Military-Industrial Prologue

A major part of the problem in this sector is that there is no central decision group with which a confrontation can accomplish anything. The labor force is highly organized, but in terms of particular craft groups in limited areas. The national leadership has not been eager to be cooperative, but even if it were, it has no power to make California plumbers moderate their claims.¹

The monumental strategic importance of U.S. economic, especially wage, policies, during the Indochina war loomed over the annual Godkin lectures that Walter Heller delivered at Harvard University in March 1966. As chairman of the Council of Economic Advisers (CEA) under Presidents Kennedy and Johnson, he had been centrally involved in formulating those policies. Heller sketched three ways in which they served the administration's "international aims":

(1) Materially, they provide the wherewithal for foreign aid and defense efforts and for financing Vietnam on a both-guns-and-butter basis.

(2) Ideologically, a vigorous American economy is a showcase of modern capitalism for all the world to see.

(3) Strategically, an expanding economy and a shrinking external payments deficit strengthen the President's hand in international policies. The doubling of our growth rate in the past five years...has strengthened not only the dollar but our strategic position in dealing with our free-world partners.²

Generating adequate profits for accumulating productive capital and producing the world's most destructive military machine while maintaining a standard of living that would not undermine workers' acquiescence in the conduct of that war were the crucial goals of the first U.S. administration willing to use "the full range of modern economic tools...."³ Heller boasted that the "discouraging pattern of recessions every two or three years between 1949 and 1960 has been broken...by a tight coupling of measures to boost demand with measures to boost productivity and hold costs in check." The key was "sizable and sustained productivity advances...." Between 1961 and 1965 this "great reconciler"...made it possible largely to satisfy the rising income claims of business and labor while holding, or even cutting, unit costs of output. Moderation in wages and profits becomes more bearable when higher productivity, bigger volume, and lower taxes keep take-home pay and profits rising merrily."⁴ Specifically, during the first half

¹John Sheahan, *The Wage-Price Guideposts* 39 (1967).

²Walter Heller, *New Dimensions in Political Economy* 11 (1967 [1966]).

³Heller, *New Dimensions in Political Economy* at 1.

⁴Heller, *New Dimensions in Political Economy* at 73-74.

of the decade, after-tax corporate profits doubled, while the average weekly take-home wage in manufacturing rose by 18 percent compared to a 1 percent decline in the latter half of the 1950s.⁵

The material and legitimacy-sustaining foundations of the prosperity phase of the business cycle, Heller told his Harvard audience, could, however, easily be jeopardized in “an economy overheated by the demands of the war in Vietnam....” If the national government were forced to “take some of the inflationary steam out of private spending on plant and equipment,” the untoward results might include: a slower increase in manufacturing capacity for a “Vietnam-charged economy”; a reduction in employment; interruption of plant modernization and expansion; and loss of business confidence. And the Hobson’s choice confronting the federal government meant that if it decided that this set of possible outcomes was too risky, it might nevertheless face the following costs of inaction: inflation, “intensified labor shortages, and growing delivery lags in machinery, equipment, and construction”; “reinforcement of wage demands leading to increases in unit labor costs”; and the “creation of future excess capacity to bedevil a post-Vietnam economy.”⁶

Heller articulated these contradictory forces before he could foresee either the multidimensional debacle that the war would soon become for the United States or the crucial role that construction workers would play in frustrating the military-industrial game plan. In May 1964, when asked at a press conference about what had become the longest upswing in peacetime, President Johnson had cautioned: “We would not say for a moment...that recessions are not possible.”⁷ Two weeks later Heller wrote him a memorandum titled, “Thinking Ahead to the Next Recession,” reminding Johnson: “It may seem a bit strange to talk about the next recession when there’s none in sight and we’re in the midst of a lusty, lean, and lively expansion--but expansions do eventually peter out.”⁸ Yet just a few months later, against the background of the “unparalleled economic achievements of these past four years,” Johnson in his 1965 *Economic Report of the President* boasted: “I do not believe recessions are inevitable. Up to now, every past expansion has ended in recession or depression—usually within three years from its start. But the vulnerability of an expansion cannot be determined by the calendar. ... In principle, public measures can head off recessions before they start.”⁹

⁵Heller, *New Dimensions in Political Economy* at 77.

⁶Heller, *New Dimensions in Political Economy* at 6.

⁷“The President’s News Conference Held on the South Lawn of the White House,” in *PPPUS: Lyndon B. Johnson: 1963-64*, Book I, 615-22 at 622 ([May 6, 1964] 1965).

⁸Walter Heller, “Memorandum for the President: Subject: Thinking Ahead to the Next Recession” 1, EX FG 11-3 (5/21/64-7/20/64), LBJ Library (May 21, 1964).

⁹*Economic Report of the President* 5, 10 (1965).

The hubris that characterized U.S. policy¹⁰ was poignantly on display in January 1967 when Secretary of Defense Robert McNamara testified before the Senate Committees on Armed Services and Appropriations. A skeptical senator engaged him in the following colloquy:

Senator SYMINGTON: My question is, how long can this Nation afford to continue the gigantic financial cost incident to this major ground war in Asia, without its economy becoming nonviable?

Secretary MCNAMARA: I think forever, and I say it for this reason: That there are many things, many prices we pay for the war in South Vietnam, some very heavy prices indeed, but in my opinion one of them is not strain on our economy.¹¹

Because “forever” is such a long time that even a Vietnam war booster could imagine that senators might regard his claim as “completely incomprehensible,” McNamara found it prudent to make it sound more plausible. He observed that the Department of Defense budget, which had amounted to \$50 billion in 1963, would in any event have risen to \$55 billion by 1967 by virtue of pay increases. The actual increase to \$68 billion represented 8.9 percent of GNP, compared to 8.7 percent in 1963, because GNP itself had risen so “dramatically.” Consequently:

I don't see how it can be said that the defense burden, heavy as it is, is distorting our economy. I don't think it is. That is why the price increase was as small as it was. That is why we are able to carry on these operations without materiel controls, and that is why we don't have either wage or price controls planned. ...

What I am really saying to you gentlemen is that with as serious a problem as we are having in Vietnam, and God knows it is serious, it isn't money that is worrying me. [I]t is not at the moment an insuperable financial burden for us. Nor do I think that in the future a defense budget as high as 9 percent of our GNP would constitute such a burden. I think we

¹⁰By 1969, a former member of Johnson's CEA, arguing that the continued absence of recession had rendered Johnson's belief uncontroversial, spoke of “the obsolescence of the business cycle pattern.” Consequently: “Today few research economists regard the business cycle as a particularly useful organizing framework for the overall analysis of current economic activity, and few teachers see ‘business cycles’ as an appropriate title for a course to be offered to their students.” Arthur Okun, *The Political Economy of Prosperity* 37, 33 (1970).

¹¹*Supplemental Military Procurement and Construction Authorizations, Fiscal Year 1967: Hearings Before the Senate Committee on Armed Services and the Subcommittee on Department of Defense of the Senate Committee on Appropriations, 90th Cong., 1st Sess.* 96 (1967). See also Arnold Weber & Daniel Mitchell, *The Pay Board's Progress: Wage Controls in Phase II*, at 258 (1978): “During World War II and the Korean War considerable emphasis had been placed on maintaining labor peace as well as on economic stabilization. The Phase II venture in controls took place in quite a different context. The requirements of the Vietnam conflict did not necessitate the concerted mobilization of the nation's resources.”

can sustain that kind of load in the future.¹²

Contrary to McNamara's assurances, however, in 1965 the Johnson administration had "massively escalated the war at the worst possible moment for the economy, just as the country was completing a long, hard climb toward the economists' nirvana—full employment without inflation." Johnson, "[d]etermined to have both guns and butter...set in motion the most virulent inflation in the country's history."¹³ In consequence, labor markets in 1966-1968 "became disorganized...under the impact of the sudden, unexpected upsurge" of war spending. The two million workers siphoned off into the "war effort"—about two-fifths of the total increase in the labor force—lowered the unemployment rate to 3.8 percent. This forced achievement of a rate below the 4 percent set as a target by the CEA in 1962 "set off a sharp increase in wages and prices."¹⁴

As U.S. military forces in Vietnam expanded to well over a half million by 1968,¹⁵ the total cost of the war rose almost 300-fold from \$100 million in 1965 to \$28.9 billion in 1969, the year of peak expenditures.¹⁶ By 1968, war expenditures alone consumed 3.2 percent of GNP,¹⁷ while total military outlays at \$78 billion exceeded 9 percent of GNP.¹⁸ Once Johnson had committed the United States to a massive land war, military purchases, at seasonally adjusted annual rates, increased from \$50.3 billion in the third quarter of 1965 to \$72.5 billion by the second quarter of 1967.¹⁹ When GNP increased by the largest amount in history in the last quarter of 1965 and unemployment fell to 4 percent, economists recognized that inflation was "inevitable." Significantly, however, the initial inflationary pressure arose in "highly competitive" "unorganized labor-intensive, low-wage sectors" such as raw materials and services and not in sectors dominated by "monopolistic firms and big

¹²Supplemental Military Procurement and Construction Authorizations, Fiscal Year 1967, at 97. The AFL-CIO Executive Council agreed with McNamara; see "Economy Has Ability to Meet Both Military, Social Needs," *AFL-CIO News*, Mar. 2, 1968, at 7. The sovereign disregard of the war repeated itself during the Nixon administration, when the August 15, 1971 wage-price controls were called the country's first peacetime control even though the "war still raged in Vietnam." Hugh Rockoff, *Drastic Measures: A History of Wage and Price Controls in the United States* 200 (1984).

¹³Robert Stevens, *Vain Hopes, Grim Realities: The Economic Consequences of the Vietnam War* 6 (1976).

¹⁴Stevens, *Vain Hopes* at 79.

¹⁵USBC, *Statistical Abstract of the United States: 1972*, tab. 421 at 260 (1972).

¹⁶Expenditures amounted to \$5.8 billion, \$20.1 billion, and \$26.5 billion in 1966, 1967, and 1968, respectively. Anthony Campagna, *The Economic Consequences of the Vietnam War*, tab. 5.2 at 83 (1991).

¹⁷Stevens, *Vain Hopes*, tab. 8-6 at 99.

¹⁸Calculated according to *Economic Report of the President 1973*, tab. C-1 at 193 (1973).

¹⁹Committee for Economic Development, *The National Economy and the Vietnam War*, Appendix A, tab. 4, at 75, chart 3 at 22 (1968). See also Center for Strategic Studies, *Economic Impact of the Vietnam War* 72-75 (1967) (written by Murray Weidenbaum)

unions.”²⁰

To be sure, mainstream and administration economists strove to portray these changes in a relatively harmless light. For example, Arthur Okun, who had been a member and chairman of Johnson’s CEA, described the major problem facing the federal government between 1961 and mid-1965 as “inadequate total demand” and the main task as “invigorat[ing] the economy.” At that juncture, however, once “noninflationary prosperity” had been achieved, “the normal challenges of high employment,” Okun conceded at his Crawley Memorial Lectures at the Wharton School in April 1969, “became immensely complicated by the upsurge in defense spending.”²¹

The economic and political obstacles to controlling a low-unemployment militarized economy without traditional wartime controls made themselves felt soon enough. In this context, one of the salient differences between manufacturing and construction is symbolized by a memo that Heller wrote to President Johnson a few days after the assassination of President Kennedy in 1963. Relating the substance of a long meeting with the president of the United Automobile Workers (UAW), Heller reported that Walter Reuther had told him “in the most emphatic terms possible” that the union would be “going for a whopping wage increase” in 1964, especially from General Motors:

He mentioned no numbers, but it is clear that what he’s after would give a big shove to the price-wage spiral. He says they’re going to “unburden” GM (whose after-tax profits in the 12 months ending in September were \$1.6 billion) of the biggest chunk of profits any company ever parted with.

Our arguments about socially responsible collective bargaining, the need for price stability, and so on, made no apparent dent. He claims rank-and-file pressures require a dramatic settlement; that the AFL-CIO have been good boys long enough; that labor’s share of income has been slipping while the corporations have been racking up unwarranted price increases.

He’s confident he’ll have a good case with the public. ... And he’s tired of remaining moderate while the irresponsibles in the labor movement like Hoffa and the Building Trades are pushing inflationary wage increases with impunity.

We have been hoping the “good unions” could be persuaded to take it easy for at

²⁰Okun, *Political Economy of Prosperity* at 66. The chairman of Johnson’s CEA, Gardner Ackley, insisted that the administration’s wage “guideposts weren’t intended to hold down wage increases of unorganized or weakly organized workers” that were brought about not by union power, but by employers’ need to attract more labor. Ackley stressed, however, that if such low-wage workers’ wage increases exceeded the national trend in productivity increases, while unionized workers’ wage increases matched productivity increases, “there is an unavoidable inflationary bias in the economy.” *Congressional Review of Price-Wage Guideposts: Hearing Before a Subcommittee of the House Committee on Government Operations*, 89th Cong., 2d Sess. 110 (1966).

²¹Okun, *Political Economic of Prosperity* at 43, 44, 62.

least another year while the economy was getting back toward full employment.²²

In early 1966, the new CEA chairman, Gardner Ackley, sounded a similar theme. In a memo to Johnson bearing the ironic title, "The Solid Gold Cadillac," Ackley explained the UAW's renewed push for strong wage increases: "The source of the problem is fantastic automobile profits." GM's more than \$2 billion in profits amounted to "a 26% after-tax return on equity (a figure more reasonably associated with a newly opened gold mine). There has never been a profit record like this in the history of American industry." Because such profits revealed how the administration's wage-price guideposts had failed: "If we can't pull their prices down, Reuther will go after their profits in 1967 with a huge wage demand. And he will get it. Workers in other industries will surely try to follow him, touching off a massive wage-price spiral."²³

In contrast, redistributing excess profits to wages rarely played a part in justifying construction unions' demands for higher wages.²⁴ It had been a long time since the Carpenters' union monthly magazine had published "What We Earn and What Our Bosses Pocket," using the 1880 census data to calculate wages, capital, and profits²⁵—followed two months later by the front-page announcement of Karl Marx's death.²⁶

²²Walter Heller, "Memorandum for the President: Subject: Prices and Wages in 1964" at 1, Dec. 6, 1963, EX FI, 11/22/63-12/14/63, LBJ Library.

²³Ackley to the President, "The Solid Gold Cadillac," Mar. 6, 1966, Papers of Stanley W. Black; quoted in James Cochrane, "The Johnson Administration: Moral Suasion Goes to War," in *Exhortation and Controls: The Search for a Wage-Price Policy 1945-1971*, at 193-293 at 248 (Craufurd Goodwin ed., 1971).

²⁴Danel Quinn Mills, *Industrial Relations and Manpower in Construction* 78 (1972), found no statistically significant correlation between changes in profit rates and wage rates.

²⁵"What We Earn and What Our Bosses Pocket," 3 (2) *Carpenter* 4 (Feb. 1883).

²⁶3 (4) *Carpenter* 1 (Apr. 1883).