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In the mid-1970s, faced with falling profits and intensified competition, many businesses chose the "low road" of confrontation with labor in an attempt to squeeze wages and benefits. In earlier books and in previous chapters of this book, the author has argued that this shift in corporate strategy, rather than changes in technology or trade, is the primary cause of the decline in real wages and increase in income inequality of the late twentieth century. [See, for example, the chapter summarized in *The Changing Nature of Work*.] The chapter summarized here provides a more detailed look at the "low road" strategy, describing three key institutional changes that resulted from this strategy and estimating their quantitative impacts.

The Management Offensive

Business faced a crisis of profitability in the 1970s, as the after-tax rate of profit for non-financial corporations fell from 9.6% in 1966 to 6.4% in 1973. In principle, corporations could have responded by taking the high road, providing workers with increased real wages and job security, and more cooperative work relations, as a means to boost productivity and profits. Most, however, chose the low road of coercive attempts to lower labor costs.

Businesses quite explicitly changed their strategies, hiring anti-union consultants, lowering non-unionized workers' real wages, and demanding unprecedented concessions in bargaining with unions. One management consulting firm advertising its services to a corporate audience in the late 1970s, said, "We will show you how to screw your employees (before they screw you) – how to keep them smiling on low pay – how to maneuver them into low-pay jobs they are afraid to walk away from – how to hire and fire so you always make money." [208] Surveys of corporate practices in 1978 and 1983 reflected a change in the factors influencing wage-setting: in the earlier survey, the factors most often mentioned were industry patterns and local labor market conditions; in the later survey, the top two factors were the company's own productivity or labor trends, and profits.

With the arrival of a conservative in the White House in 1981, the corporate campaign against labor gained the support of the federal government. President Reagan's dramatic defeat of the air traffic controllers' strike, and the choice of more conservative appointees throughout the government, brought a more frigid atmosphere to labor relations. The proportion of National Labor Relations Board cases decided in favor of unions dropped precipitously.

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Some of the effects of the management offensive are hard to measure. However, three important institutional changes can be identified and analyzed: the collapse of the real value of the minimum wage, the decline in union membership and power, and the emergence of the "disposable" worker.

The Falling Wage Floor

The real value of the minimum wage plummeted throughout the 1980s, resulting in a constantly falling floor for wages in general. In a longer historical view, this decline is the third stage in the postwar record: first, from 1948 to 1968 the real minimum wage increased by nearly 50 percent; then from 1968 through 1979 the minimum wage was raised frequently, but rapid inflation meant that it still declined 8 percent in real value. After 1979, there were no increases for a decade, while inflation cut the real value of the minimum wage by nearly a third.

It is often observed that few workers earn as little as the minimum wage; this is mistakenly taken to mean that minimum wage legislation has little effect on other workers. In 1991, 5.7 percent of the workforce earned at or below the minimum wage; however, 16.8 percent of the workforce earned at or below the real value of the 1979 minimum wage. That is, the bottom one-sixth of the workforce would have been directly affected if the minimum wage had kept up with inflation since 1979.

Changes in the minimum wage, upward or downward, have a ripple effect on workers who make only slightly more than the minimum. Including this effect, the author estimates that the decline in the real minimum wage from 1979 through 1993 affected 23.5 percent of all private nonfarm workers. Another study found that the decline in the real minimum wage accounted for a quarter to a third of the increase in income inequality between 1979 and 1988, with a greater effect on women than men. [See also Card and Krueger, summarized in Part 9.]

Unions on the Run

The management offensive against organized labor was strikingly successful. By the 1980s, the union movement was suffering obvious and widespread defeats. The decline of union representation and power contributed to the wage squeeze in three ways.

First, fewer workers enjoyed the benefits of union membership. Unionized workers earn higher wages and receive better benefits than comparable nonunionized employees. The unionized share of the labor force, which has been falling since 1954, declined even more precipitously in the 1980s. By the early 1990s, only 14 percent of all nonfarm workers, and 11 percent of those in the private sector, belonged to unions. Almost all of the decline has been among men (where the sharpest drops in income have also occurred); the percentage of women employees who are unionized has been virtually constant since the early 1970s.

Second, unions have become increasingly defensive in the face of the management offensive. Demands for concessions and rollbacks in previously negotiated wages, benefits and other contractual provisions became nearly universal in bargaining in the 1980s. As a result, the union wage premium was shrinking, for those who remained members of unions. And third, there is

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some indirect spillover effect of union contracts on wages in the nonunion sector. As unions became less powerful, this spillover effect must have diminished.

It is easiest to measure the first of these effects. Three separate studies, using very different methodologies, found remarkably similar results: lower unionization rates can account for 21 percent of the increase in wage inequality in the 1980s. Regarding the second effect, the author estimates that the union wage premium in the private sector declined from $1.87 an hour (in 1993 dollars) in 1983 to $1.47 an hour in 1993. The third effect, although undoubtedly important, is difficult to measure.

The Disposable Worker

The much-celebrated new age of "flexibility" at work has a dark side involving insecure, unpredictable employment for millions of people who would prefer steadier work. However, the category of "contingent" workers, sometimes said to include one quarter to one third of all American workers, is too broad, including many who are voluntarily self-employed or part-time. A narrower category of "disposable" workers includes those who expect their current job to last less than a year, plus others who are involuntarily working part-time, and day laborers, temp agency employees and others with involuntary, nontraditional arrangements. In 1995 there were 9.2 million disposable workers, amounting to 9.9 percent of private nonfarm employees.

Involuntary part-time workers earned roughly one-quarter less than comparable other workers in 1993. If this wage penalty applies to all disposable workers, then the rapid growth in the number of disposable workers could have accounted for about one-fifth of the decline in average real wages from 1979 to 1994 – roughly on a par with the decline of unionization. Moreover, disposable workers almost never receive employee benefits such as health care, which causes an added squeeze on workers and labor costs.

The Combined Effects of the Offensive

One study estimated that the change in the real minimum wage and in union membership together could explain between 39% and 74% of the increased wage inequality among men for various time periods since 1973 (the estimates were somewhat lower for women). This conclusion is reinforced by a comparison of male earnings inequality in the U.S. and Canada in the 1980s; in contrast to the U.S. experience, inequality among Canadian men was roughly constant during this period. Differences in union strength and the minimum wage accounted for two-thirds of the difference between the countries (DiNardo and Lemieux *get cite from Gordon's footnote 94 or 95!*). Similarly, the author estimates that much of the decline in average real wages since the 1970s can be explained by the three institutional changes discussed above.

The low-road hypothesis provides a better explanation of the wage squeeze than the competing "skills mismatch" and globalization theories. The alternative theories have problems of timing: rapid technological changes in the workplace arise after the wage squeeze is well underway [see Howell article summarized in Part 6], while the trade deficit, which soared in the early 1980s, shrank substantially in the late 1980s without visibly lessening the wage squeeze. The management offensive not only began at the same time as the wage squeeze, but also is broadly

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applicable across the economy: it affects industries pressured by import competition, and those that are unaffected by trade; it is relevant to industries with rapid technological change, and to those that have remained stagnant. Moreover, the low-road hypothesis provides a natural explanation of the difference between the U.S. and other countries, particularly in continental Europe, which have more cooperative labor relations and less inequality.

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