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Changing the Rules of the Game

Abstract: In Chapter 2, I show that employer—employee relations changed over the last three and a half decades to the detriment of unions and labor in general. As a result, the counter balances to employers wage setting power decreased enabling business to drive a larger and larger wedge between the wage and marginal product of the average worker. The consequent increase in profits and the destruction of groups that would object to higher remuneration for those at the top made possible and probably explain the increase in CEO vis-à-vis workers’ compensation in the non-financial sector. Income inequality that exists from this dynamic is not only the result of different social worth but also the result of intra-firm power dynamics.

In Chapter 1, we analyzed the evolution of income inequality in the United States from the 1950s to present. We found that the share of national income going to those in the upper reaches of the income ladder has increased considerably over the last three and a half decades, and that explaining the change in top wage incomes which predominantly include remuneration for CEOs in the non-financial sector is central to understanding these changes. We also explored SBTC—the theory for the increase in wage income inequality which, at least until recently, has the most support from economists and politicians. Finding SBTC lacking, we ended the last chapter in suspense. What is driving the impressive increase in income inequality in the United States since the 1980s? In this chapter, we will explore an explanation for the rise in wage income inequality in the real sector.

A shift in employer–employee relations

Shortly after taking office in 1981, President Reagan set the tone for employer–employee relations when he fired 11,400 striking air traffic controllers. The fate of the Professional Air Traffic Controllers Organization (PATCO) was an ominous warning of the dramatic changes ahead. In the aftermath, many “unions became less aggressive,” explained James Peirce, president of the National Federation of Federal Employees. “If Reagan can destroy PATCO, he can destroy us, too. People didn’t want to stick their neck out.” By late 1983, Regan’s policy took a more concrete form. After a bitter battle with congressional democrats, he appointed a majority to the National Labor Relations Board (NLRB) with Donald Dotson as Chair. The general counsel and the five members of NLRB, headed by the chairman, administer and interpret the National Labor Relations Act (NLRA)—a New Deal hallmark created to protect workers’ rights to bargain collectively. Because of the “open-ended ambiguity” of the NLRA, as put by one NLRB Chairman, the board can reframe employer–employee relations without ever changing statute law. Writing to the American Bar Association Journal in 1980, Dotson commented: “Collective bargaining frequently means labor monopoly, the destruction of individual freedom and the destruction of the marketplace as the mechanism for determining the value of labor.” Dotson’s views represented a marked change for the chair of the board created to protect labor’s right to bargain collectively.